

# The Economist

MARCH 15TH-21ST 2014

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What China thinks about Ukraine

The resurgent Republicans

America's big bad cable merger

The threat from Mexico's vigilantes

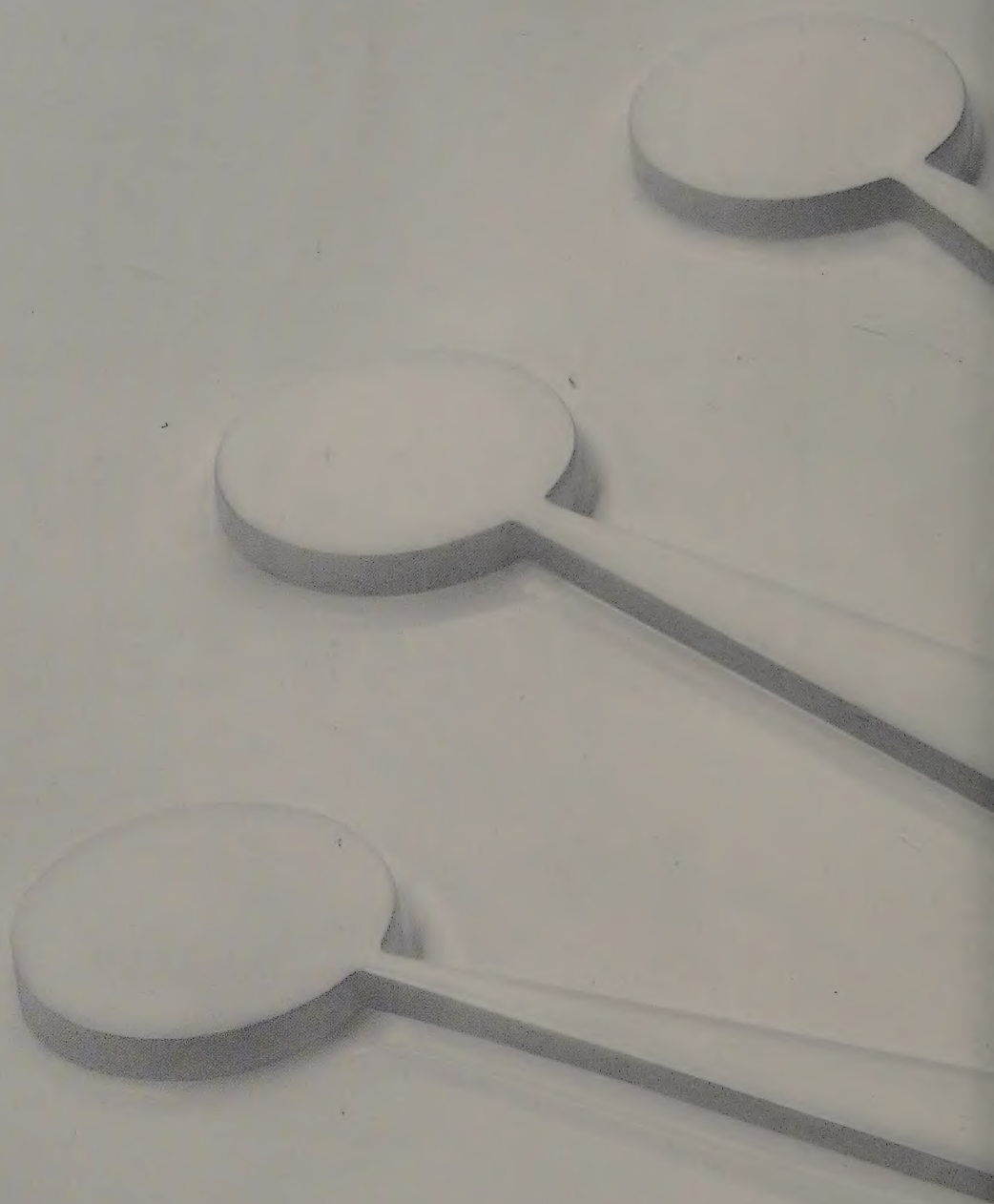
Karl Ove Knausgaard, Scandinavia's Proust

## The new age of crony capitalism



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Tycoons in industries close to the government are richer than ever before in the emerging world. Perhaps not for long: leader, page 13. Graft in India is damaging the economy. The country needs to get serious about dealing with it, pages 23-26. Our new crony-capitalism index: where politically well-connected businessmen prosper, pages 57-58

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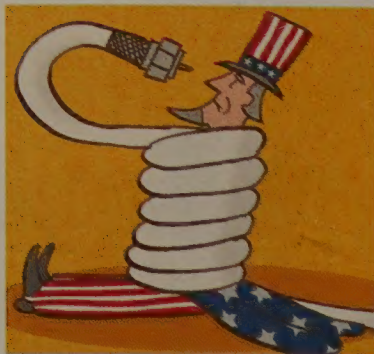
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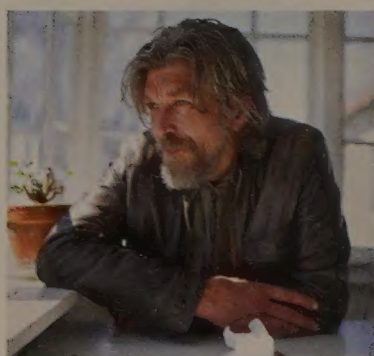




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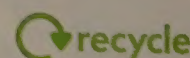
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## Politics



Leaders of the G7 said that unless **Russia** stopped all efforts to annex **Ukraine's** Crimea region they would "take further action, individually and collectively". The G7 has said it will not recognise the results of a referendum to be held on March 16th in Crimea on whether or not to join Russia.

**Turkey** saw its worst street violence for months, sparked by the death of a 15-year-old who had been in a coma after being hit by police with a tear-gas canister during last year's protests. Berkin Elvan had been shopping for bread for his family. At least one protester died in the latest trouble. Recep Tayyip Erdogan, the prime minister and the target of much of the anger, has refused to apologise for cracking down hard on protesters.

Chrystalla Georgiadji was appointed as governor of **Cyprus's** central bank following the resignation of Panicos Demetriades, who had been under pressure from Cypriot politicians over his handling of last year's banking collapse.

On a day dubbed "Super Wednesday" **Italy's** new prime minister, Matteo Renzi, announced tax cuts and labour-market reforms in a first move away from austerity policies. The European Commission has warned Italy against over-optimistic projections of future incomes.

Ed Miliband, the leader of **Britain's** opposition Labour Party, all but ruled out holding a referendum on Britain's membership of the European

Union should he win next year's general election. The ruling Conservatives are promising a vote if they win.

### A provocation

Palestinian militants launched their biggest barrage of rockets from the Gaza Strip into **Israel** since November 2012. Dozens of missiles were fired, with several hitting urban areas. In response, Israeli forces fired shells into Gaza. Meanwhile, Binyamin Netanyahu, Israel's prime minister, criticised the world's "self-deception" about Iranian support for militants in the region.

**Libya's** prime minister, Ali Zeidan, was dismissed by parliament, after a North Korean-flagged tanker became the first to load up with oil at a rebel-held port and leave Libyan waters. Mr Zeidan subsequently defied a travel ban and left the country.

A group of human-rights activists and politicians in **Uganda** filed a challenge in court to the country's notorious anti-gay law, which is being blamed for an increase in attacks on gay people since being signed by the president last month.

### The agony of not knowing



A Boeing 777 **passenger jet** belonging to Malaysia Airlines disappeared about an hour after taking off from Kuala Lumpur for Beijing, with 239 passengers, most of them Chinese, and 12 crew on board. An extensive search for wreckage got under way, but the aircraft's disappearance remained a mystery.

Swiss authorities opened a money-laundering investigation into Gulnara Karimova, the daughter of **Uzbekistan's**

**strongman**, Islam Karimov. Some SFr800m (\$920m) in bank accounts have been frozen. Ms Karimova combined a career as a businesswoman and a pop star with being ambassador to the UN.

A court in **Thailand** struck down the government's \$62-billion plan to build a high-speed rail network, a blow to the embattled prime minister, Yingluck Shinawatra. The court agreed with the opposition's contention that the plan was not transparent and would raise public borrowing to unacceptable levels.

Islamists in **Pakistan** again attacked those trying to administer polio vaccines, shooting dead two policemen who were escorting a vaccination team. The extremists claim the vaccination programme is a cover for foreign espionage. In nearly all other countries, the disease has been eradicated.

Nearly 100% of eligible **North Koreans** cast a vote in legislative elections, with 100% of them in favour of the ruling party's candidates (there were no others). Kim Jong Un, the dictator, was among those who romped home—his constituency is Paektu, a sacred mountain. He may use the elections to elevate those loyal to him. The poll is also used by the regime to count its subjects. Even some defectors return so that their families won't get into trouble.

### Polls apart

Salvador Sánchez Cerén of the ruling FMLN won a narrow victory in the second round of **El Salvador's** presidential election. Norman Quijano of the right-wing ARENA party, who put in an unexpectedly strong showing, had alleged electoral fraud and called for a recount.

The party of Álvaro Uribe put in a strong showing in congressional elections in **Colombia**. The former president is a critic of peace negotiations with the country's FARC guerrillas, which were started by his successor, Juan Manuel Santos.



Michelle Bachelet was sworn in as **Chile's** president for a second time, replacing Sebastián Piñera. Ms Bachelet won the 2013 election promising free universal education, paid for by tax reforms.

The leaders of 15 Caribbean states pushed ahead with plans to demand reparations from European countries for their part in the **slave trade**. The Caribbean leaders adopted a list of ten demands, including a formal apology and financial help, which they will present to Britain, France and others in due course.

### An almighty row brewing

Dianne Feinstein, the head of America's Senate Intelligence Committee, accused the **CIA** of searching computers that the committee had used while investigating an interrogation programme. Normally a stalwart defender of the intelligence services, Mrs Feinstein claimed the CIA had crossed a constitutional line and referred it to the Justice Department.

A Republican narrowly won a closely watched special **congressional election** for a district in the suburbs of Tampa, Florida. Republicans crowed that this showed that Obamacare would cost Democrats the mid-terms.

Jan Brewer decided not to seek re-election as governor of **Arizona**. She will be remembered for signing an act that cracked down on illegal immigrants, which was struck down by the courts, and for vetoing an equally controversial bill that would have made it easier for businesses to discriminate against gays. She thinks that now is the time "to pass the torch of leadership".



## Business

Zhou Xiaochuan, the governor of China's central bank, said that official controls on the interest rates that Chinese banks can offer savers would be lifted within two years. This is the latest reform in China's push to liberalise its financial industry. Banks are already allowed to set their own lending rates. The government this week allowed five private banks to be set up in China's wealthiest regions in order to boost lending to small firms.

Meanwhile, China's annual rate of inflation slowed to 2% in February from 2.5% in January and producer prices continued down their two-year path of monthly declines, providing more evidence of slackening demand in the economy. Chinese exports unexpectedly fell in February, by 18%, the most since 2009 and leaving the country with a rare trade deficit for the month. The central bank made further moves to weaken the yuan, possibly to help exporters.

### Risky business

Chaori Solar, which has become the first company in China to default on a corporate bond, said it would sell assets to repay debt and would try to avoid bankruptcy. The markets took a chilled approach to the solar-equipment company's default, which the authorities may have permitted as a message to investors about pricing risk adequately. China's corporate-bond market has grown rapidly since 2008's credit binge.

Puerto Rico's \$3.5 billion sale of municipal bonds was more than four times oversubscribed, giving the heavily indebted island a few more months' breathing room before it risks a default. The junk-rated bonds mature in 2035, and offer investors high yields and tax breaks.

Mark Carney, the governor of the Bank of England, said that the unfolding scandal concerning alleged manipulation of

foreign-exchange rates went "to the heart of integrity of markets" and was possibly more serious than LIBOR. The central bank has been accused of ignoring warning signs in the matter, and will soon unveil new oversight rules.

### Mutual destruction

The chief executive of Britain's Co-operative Group resigned after a testy ten months in the job. Euan Sutherland stood down complaining that the group, which is mutually owned and controlled through a patchwork of committees and regional boards, is ungovernable. He became chief executive last May, seeing through a rescue plan for the Co-op's bank that ended up with the group losing full control of the business. The Co-op is expected to reveal huge losses when it reports its annual results.

UniCredit surprised even the most grizzled observers of Italy's troubled banking industry when it reported a €15 billion (\$21 billion) net loss for the fourth quarter. The bank portrayed the loss as a "courageous decision" to write down bad debts and goodwill and tidy up its balance-sheet ahead of European stress tests. It also proclaimed a new start

under a four-year turnaround plan in which it will shed 6% of its workforce.

The share price of Herbalife, an American seller of dietary supplements, fell after it said it was being investigated by the Federal Trade Commission. Bill Ackman, an activist investor, has shorted Herbalife's shares; the company rejects his claim that it is a "pyramid scheme".

### Biggest banana exporters

2012, tonnes m



Source: FAO

The banana world was split over the merits of a merger between Chiquita and Fyffes that will create the fruit's biggest distributor. Antitrust regulators will look closely at the deal, especially in Europe, which imposed stiff tariffs on Latin American bananas until 2012. But some say a merger makes sense, given the current squeeze in profit margins as a result of the costs of tackling potentially disastrous diseases in banana crops.

Johnson & Johnson sold its K-Y intimate-lubricant brand to Britain's Reckitt Benckiser in a deal that underlines the rapid growth of the sexual-well-being market. To ease the passage of the deal, only the brand is slipping between hands; no workers or assets are being transferred.

After five months of bids, counter-bids and "Pac-Man defences", Men's Wearhouse and Jos A. Bank at last agreed to combine in a \$1.8 billion deal to fashion America's fourth-biggest retailer of men's apparel. Because of the takeover Jos A. Bank is terminating its planned acquisition of Eddie Bauer, a clothing brand.

### Motoring information

Martin Winterkorn, Volkswagen's boss, warned that the increasing integration of smart technology into cars risked creating a "data monster". Smart cars have gadgets that link easily with smartphones, but other features, such as on-board cameras and systems that can alert insurers to aggressive-driving patterns, are worrying privacy advocates. Mr Winterkorn says "yes to Big Data...but no to...Big Brother".

Other economic data and news can be found on pages 84-85





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# The new age of crony capitalism

Political connections have made many people hugely rich in recent years. But crony capitalism may be waning



AS THE regime of Viktor Yanukovich collapsed in Ukraine, protesters against it could be found outside One Hyde Park, a luxury development in west London. Their target was Rinat Akhmetov, Ukraine's richest man and a backer of the old

regime. "Discipline your pet", they chanted.

Ukraine's troubled state has long been dominated by its oligarchs. But across the emerging world the relationship between politics and business has become fraught. India's election in April and May will in part be a plebiscite on a decade of crony capitalism. Turkey's prime minister is engulfed by scandals involving construction firms—millions of Turks have clicked on YouTube recordings that purport to incriminate him. On March 5th China's president, Xi Jinping, vowed to act "without mercy" against corruption in an effort to placate public anger. Last year 182,000 officials were punished for disciplinary violations, an increase of 40,000 over 2011.

As in America at the turn of the 20th century, a new middle class is flexing its muscles, this time on a global scale. People want politicians who don't line their pockets, and tycoons who compete without favours. A revolution to save capitalism from the capitalists is under way.

## The kind of rents estate agents can only dream of

"Rent-seeking" is what economists call a special type of money-making: the sort made possible by political connections. This can range from outright graft to a lack of competition, poor regulation and the transfer of public assets to firms at bargain prices. Well-placed people have made their fortunes this way ever since rulers had enough power to issue profitable licences, permits and contracts to their cronies. In America, this system reached its apogee in the late 19th century, and a long and partially successful struggle against robber barons ensued. Antitrust rules broke monopolies such as John D. Rockefeller's Standard Oil. The flow of bribes to senators shrank.

In the emerging world, the past quarter-century has been great for rent-seekers. Soaring property prices have enriched developers who rely on approvals for projects. The commodities boom has inflated the value of oilfields and mines, which are invariably intertwined with the state. Some privatisations have let tycoons milk monopolies or get assets cheaply. The links between politics and wealth are plainly visible in China, where a third of billionaires are party members.

Capitalism based on rent-seeking is not just unfair, but also bad for long-term growth. As our briefing on India explains (see pages 23-26), resources are misallocated: crummy roads are often the work of crony firms. Competition is repressed: Mexicans pay too much for their phones. Dynamic new firms are stifled by better-connected incumbents. And if linked to the financing of politics, rent-heavy capitalism sets a tone at the top that can let petty graft flourish. When ministers are on the take, why shouldn't underpaid junior officials be?

The Economist has built an index to gauge the extent of cro-

ny capitalism across countries and over time (see page 57). It identifies sectors which are particularly dependent on government—such as mining, oil and gas, banking and casinos—and tracks the wealth of billionaires (based on a ranking by *Forbes*) in those sectors relative to the size of the economy. It does not purport to establish that particular countries are particularly corrupt, but shows the scale of fortunes being created in economic sectors that are most susceptible to cronyism.

Rich countries score comparatively well, but that is no reason for complacency. The bailing out of banks has involved the transfer of a great deal of wealth to financiers; lobbyists have too much influence, especially in America (see next leader); today's internet entrepreneurs could yet become tomorrow's monopolists. The larger problem, though, lies in the emerging world, where billionaires' wealth in rent-heavy sectors relative to GDP is more than twice as high as in the rich world. Ukraine and Russia score particularly badly—many privatisations favoured insiders. Asia's boom has enriched tycoons in rent-seeking sectors.

## Wanted: emerging-market Roosevelts

Yet this may be a high-water mark for rent-seekers, for three reasons. First, rules are ignored less freely than they used to be. Governments seeking to make their countries rich and keep people happy know they need to make markets work better and bolster the institutions that regulate them. Brazil, Hong Kong and India have beefed up their antitrust regulators. Mexico's president, Enrique Peña Nieto, wants to break its telecoms and media cartels. China is keen to tackle its state-owned fiefs.

Second, the financial incentives for businesses may be changing. The share of billionaire wealth from rent-rich industries in emerging markets is now falling, from a peak of 76% in 2008 to 58% today. This is partly a natural progression. As economies get richer, infrastructure and commodities become less dominant. Between 1900 and 1930 new fortunes in America were built not in railways and oil but in retailing and cars. In China today the big money is made from the internet, not building heavy industrial plants with subsidised loans on land secured through party connections. But this also reflects the wariness of investors: in India, after a decade of epic corruption, industrialists in open and innovative sectors such as technology and pharmaceuticals are back in the ascendant.

The last reason for optimism is that the incentives for politicians have changed, too. Growth has slowed sharply, making reforms that open the economy vital. Countries with governments that are reforming and trying to tackle vested interests, such as Mexico, have been better insulated from the jitters in the financial markets.

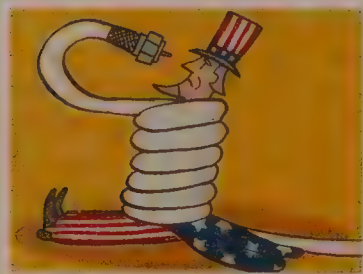
There is much more to be done. Governments need to be more assiduous in regulating monopolies, in promoting competition, in ensuring that public tenders and asset sales are transparent and in prosecuting bribe-takers. The boom that created a new class of tycoon has also created its nemesis, a new, educated, urban, taxpaying middle class that is pushing for change. That is something autocrats and elected leaders ignore at their peril. ■



## Cable consolidation in America

## Turn it off

American regulators should block Comcast's proposed deal with Time Warner Cable



**I**N "OUTLAW", a drama that aired on NBC, a Supreme Court justice leaves the bench to join a law firm. In real life he might have begun working for Comcast, America's largest cable company, which owns NBC. Many of Washington's top brass

are on Comcast's payroll, including Margaret Attwell Baker, a former commissioner of the Federal Communications Commission (FCC), America's telecoms regulator, who in government had helped approve Comcast's takeover of NBCUniversal in 2011. Even Barack Obama has Comcast ties. "I have been here so much, the only thing I haven't done in this house is have seder dinner," he quipped at a fundraiser hosted last year at the home of David Cohen, Comcast's chief lobbyist.

It helps to have influential friends, especially if you are seeking to expand your grip on America's pay-TV and broadband markets. Last month Comcast announced that it would buy Time Warner Cable (TWC), the largest provider of TV and broadband after Comcast, for around \$45 billion. In the coming weeks the Department of Justice and FCC will begin to review the merger. They should be sceptical.

The deal would create a Goliath far more fearsome than the latest ride at the Universal Studios theme park (also Comcast-owned). Comcast has said it would forfeit 3m subscribers, but even with that concession the combination of the two firms would have around 30m—more than 30% of all TV subscribers and around 33% of broadband customers. In the cable market alone (ie, not counting suppliers of satellite services such as DirecTV), Comcast has as much as 55% of all TV and broadband subscribers.

Comcast will argue that its share of customers in any individual market is not increasing. That is true only because cable

companies decided years ago not to compete head-to-head, and divided the country among themselves. More than three-quarters of households have no choice other than their local cable monopoly for high-speed, high-capacity internet.

If the takeover is approved, Comcast would control 20 of the top 25 cable markets, according to MoffettNathanson, a research firm. Antitrust officials will need to consider Comcast's status as a monopsony (a buyer with disproportionate power), when it comes to negotiations with programmers, whose channels it pays to carry. Comcast could refuse to carry certain channels, or use its clout to insist on even greater price discounts or to favour its own content over that of others.

For consumers the deal would mean the union of two companies that are already reviled for their poor customer service and high prices. Greater size will fix neither problem. Mr Cohen has said, "We're certainly not promising that customer bills are going to go down or even that they're going to increase less rapidly." Between 1995 and 2012 the average price of a cable subscription increased at a compound annual rate of more than 6%.

## A pipe-dream

The biggest worry is Comcast's grip on the internet. Unlike Britain and France, America unwisely has no "common carriage", allowing for internet service providers to rent cable companies' pipes and compete on price and speed. Already Americans pay far more than people in other rich countries for slower internet. Comcast will have extraordinary power over what content is delivered to consumers, and at what speed.

There is plenty for Mr Obama and Mr Cohen to discuss at their next dinner. But better yet, officials could keep their distance from Comcast, and reject a merger that would reduce competition, provide no benefit to consumers and sap the incentive to innovate. ■

## Russia, Ukraine and Crimea

## Asymmetric wars

The best way to get Crimea back is for Ukraine to become a prosperous democracy—with the West's help



**I**T'S not the voting that matters, Joseph Stalin once observed, but the counting. At the illegitimate referendum to be held in Crimea on March 16th, the Kalashnikov-wielding men in balaclavas and the absurdly skewed ballot paper may also play a role. Like Vladimir Putin's surreal claim that the elite troops who have overrun the peninsula are merely local volunteers, the referendum would be laughable, were it not—like Mr Putin's invasion—dreadfully real.

The basic result of this sham plebiscite is certain: a rigged

decision to secede from Ukraine (see page 49). The question for the West, and for the authorities in Kiev, is how to respond. The answer has two distinct parts. The West must be vigorous in its denunciations of what is, in effect, a seizure of sovereign Ukrainian territory—much more so than it has been so far. But the Ukrainians themselves should be patient.

As might be expected of a capricious autocrat who has ruled for 14 years, Mr Putin's next move is unpredictable. He might try formally to subsume Crimea into Russia; his own parliament is paving the way for that illegal land-grab. He might choose to wait, leaving Crimea to languish as a twilight non-state. Either way, by invading Ukraine, and recognising both the bogus referendum and "the Goblin" (as Sergei Akse- ►►



nov, the sinister leader of Crimea's local putschists, is known), he has trampled on international law and subverted the post-cold-war world order. The United States has begun to punish Russia for its offences, through visa bans and asset freezes. The response should be much fiercer, encompassing Mr Putin's entire nomenklatura and Kremlin-linked companies.

For its part, the interim government that took over last month after Viktor Yanukovich, Ukraine's disgraced former president, fled to Russia, has three broad options over Crimea. All are unpalatable—but not equally. The first is to fight the Russians for the peninsula. That would be a catastrophe, even if the new authorities had a stronger mandate, and were not already struggling to assert control over the rest of the country, and to stop it going bust. Ukraine would lose any war with Russia, at a cost of many lives; it could not expect outside powers to come to its aid. Ukraine's armed forces, particularly those besieged and harassed in their bases in Crimea, have avoided conflict. They should maintain their heroic restraint.

The second option for the Ukrainians is to agitate and protest as best they can, as they are plainly entitled to. But for a preview of what that approach might entail, they should glance across the Black Sea. Two breakaway regions of Georgia, South Ossetia and Abkhazia, were for years used by the Kremlin to destabilise that country (until, in 2008, Russia invaded Georgia to "protect" them). Georgia's frail polity was poisoned by its grievances; energy that should have been used to build a functioning state was sapped. If Crimea becomes the focus of Ukraine's politics, its bid to become an independent democracy will be nobbled by nationalism and Russian meddling. This is probably the outcome that Mr Putin intends.

The least-bad course for Kiev is painfully to accept that, for now, Crimea is lost, in fact though not in law. That means nego-

tiating a peaceful exit for those besieged Ukrainian servicemen. And for the Tatars, a put-upon Crimean minority loth to live under Russian rule (having been deported en masse by Stalin in 1944), it means securing as much protection as Ukraine and its allies can muster. After that, Ukraine's priorities should be to stage free elections in what remains of the country, install a legitimate national government, revamp the economy and create durable democratic institutions.

### A Marshall plan for Ukraine

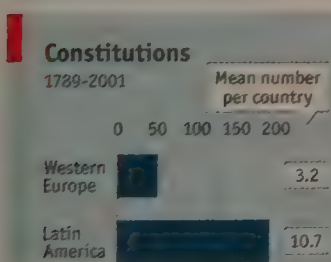
The West's other task—and the best strategy for restoring Crimea to Ukraine—is to help it. The European Union has begun to ease tariffs on Ukrainian goods: that is a start, but it must go much further, and fast, with financial support to stave off bankruptcy and then, in tandem with the IMF, to rebuild the state. That should come with closer formal ties and as much technical assistance as Kiev can swallow: in effect, a mini-Marshall Plan. With luck and time, the people of Crimea will look north at a prosperous democracy and push to rejoin it.

Part of the trouble with Mr Putin is the studied asymmetry of his tactics. He gleefully stoops to thuggery—insulting foreign leaders, harassing diplomats, assassinating critics, and, now, invading his neighbour and pretending he hasn't—knowing full well that Western leaders cannot copy him. But the West has a powerful tool of its own that he can never match: a way of life, based on rules and freedom, that people all over the world crave. That includes Russians, many of whom long to escape Mr Putin's corrupt and increasingly repressive authoritarianism, and especially, Ukrainians, some of whom have recently died in the streets in their quest for better government. Helping Ukrainians to achieve that goal is the surest way to resist—and ultimately reverse—Mr Putin's crimes. ■

## Changing constitutions

# All shall have rights

## Latin America's politicians fiddle far too much with their constitutions



**"D**ON'T interfere with anything in the constitution. That must be maintained, for it is the only safeguard of our liberties." The United States has taken Abraham Lincoln's admonition to heart: its constitution has been amended several

times since coming into effect in 1789, but never replaced. South of the border, however, constitutions are perishable items.

By one calculation, Latin America boasts the four countries that have gone through the most constitutions. The Dominican Republic heads the list, with 32, from its first in 1844 to its latest version in 1994. (Scholars differ over whether the 2010 document counts as a rewrite or a thorough edit.) Other serial revisers include Ecuador—20 versions, the latest in 2008—and Venezuela, whose 26th constitution was drawn up in 1999. The average lifespan of a Latin American constitution is 16.5 years; in western Europe, it is 77.

The chopping and changing has slowed in recent decades; Latin America's propensity to fiddle is now not so different from that of other developing countries. Even so, since 1978 the

region has enacted an average of almost one new constitution per country. In that time, not a single country has left its constitution unamended. Michelle Bachelet, inaugurated as Chile's president for a second time this week, has pledged a new constitution to replace the Pinochet-era one. In response to last year's wave of protests, Dilma Rousseff, Brazil's president, reached for the idea of a constituent assembly.

### Keep your sticky fingers off

Pace Lincoln, it is too simple to damn all change. Political upheavals, from independence struggles to democratic transitions, sometimes warrant new texts—enshrining, for example, human rights that military *juntas* have scorned. Constitutions are not meant to be immutable; America's is constantly reinterpreted by the Supreme Court. Some need to be updated: until 1994 Argentina's constitution mandated that the president had to be a Catholic. Some need to have bad ideas excised: Mexico was right to change its constitution last year, to end a ban on foreign investment in its oil-and-gas industry. Small amendments can obviate the need for wholesale changes.

But habitual fiddling is still corrosive. Constitutions represent the institutional continuity of the state. The players may ►►



► change and regulations may get tweaked, but the promise of a constitution is that the rules of the game are predictable. The more contingent those rules appear, the less confidence citizens have in their ability to plan and invest for the long term. And change begets change. Once altering the constitution becomes just another policy option, politicians are much more likely to do so to help themselves. In January the Nicaraguan constitution was changed to scrap term limits, enabling President Daniel Ortega to run for a third term. Venezuela's Hugo Chávez did the same in 2009. In Ecuador President Rafael Correa, who is due to leave office in 2017, is having second thoughts about the two-term limit his own 2008 constitution placed on elected officials. The best test of respect for the constitution is the willingness of politicians to leave such clauses alone.

One way for Latin Americans to discourage fiddling is to write simpler documents in the first place. Constitutions need not be as minimalist as that of the United States, but Latin

America's framers tend to prescribe the nature of their states in detail, sometimes to a point of absurdity. Venezuela's constitution mandates a national industry to produce health-care supplies; Bolivia's pledges to protect coca; Brazil's requires a higher wage for night-shift work than for daytime labour. The bossier the document, the greater the chance of having to make constitution-sapping amendments in future.

Politicians tempted to fiddle with their founding documents should exercise more self-restraint, and generally leave them alone. Mr Correa would do his country a great service by respecting its institutions, even if that means depriving it of his own talents. Chile's constitution needs changing, but not binning. Brazil does not need a constituent assembly.

Voters asked to approve constitutional change should regard the prospect with deep scepticism. The more often rules are altered, the less seriously people take them; and without proper rules, democracy becomes a dangerous game. ■

## Britain and Europe

# Hold 'em

Labour's leader has made it less likely that Britain will leave the EU



**E**D MILIBAND is not a natural gambler. His inner circle resembles an intellectual salon, with a strong Harvard flavour. "People think we're too professorial," joke his intimates. "Shall we hold a seminar to discuss it?" For Christmas he handed out bi-

ographies of Theodore Roosevelt. But this week the Labour Party's leader placed a big bet by all but ruling out a referendum on Britain's membership of the European Union if Labour wins the next general election.

As the EU's second-biggest economy, Britain is central to the club, yet it has mostly seemed uncomfortable there. It joined late and has become increasingly disaffected. The creation of the euro in 1999 pushed it further from the centre; over the past ten years, a torrent of migrants from new member states in eastern Europe has undermined Britons' enthusiasm for membership and encouraged the growth of the anti-immigrant, anti-EU United Kingdom Independence Party.

Plenty of Britons, including this newspaper, have long argued that there should be a referendum on membership of the EU, given the very different nature of the union from the one that Britain joined 40 years ago. As politicians have ducked the issue, anger has mounted. These days the referendum campaign is led mostly by those who simply want to leave. In January 2013 David Cameron, the prime minister, gave in to pressure from backbenchers in his party, who feel about the European Union much as rural Republicans do about gun bans, and promised to hold one in the first half of the next parliament—that is, by the end of 2017.

Until this week Mr Miliband avoided committing himself either way. Now he has made it clear that, unless there is a significant transfer of powers from Westminster to Brussels—probably in the form of a treaty change, which he does not expect to happen—he will not hold a referendum if he wins next year's election.

The call he has made is a risky one for Labour. On the one hand, voters—who can always smell hypocrisy—will appreciate the fact that he is being true to his, and his party's, instincts. The son of a Belgian Marxist father and a Polish mother, he was never going to convince as a little Englander, and Labour has come to see the EU as a handy way of advancing workers' rights. Yet Mr Miliband has also provided Mr Cameron with a profitable new line of attack. Britons tell pollsters that they want a say over whether their country stays in the union, even if no more powers are transferred to Brussels. Mr Miliband's refusal to promise a vote could confirm the view that he is out of touch with normal people (see page 54).

In a way, Mr Miliband's call is a good one for Britain. Had Labour's leader matched Mr Cameron's promise, the country could well have dropped out of the EU by accident. If Mr Cameron wins the next election and holds a referendum, he will campaign to stay in and has a good chance of winning. But if Mr Miliband wins, the Tories will probably ditch Mr Cameron for a hardline anti-European; such a figure would have campaigned to leave in a referendum, and a grumpy mid-term electorate might well have agreed with him. Business is relieved: the prospect that Britain might fall out with by far its biggest export market worries banks and manufacturers almost as much as Labour's anti-business rhetoric does.

## Is you is or is you ain't European?

In another way, though, Mr Miliband's call is the wrong one. Britons ought to be given a say on their membership of the EU. Mr Cameron was wrong to promise a referendum in 2017, because the chances are that the mess caused by the euro crisis will not be cleared up by then, and Britons will still not know what sort of club they are voting to stay in or leave. Early last year a major EU treaty change seemed imminent, but now the prospect is receding.

Still, once things have settled down Britain needs to decide whether it is in or out. Until it does, the issue will continue to plague the country's politics. ■



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## Opinions on democracy

**SIR** – Regarding “What’s gone wrong with democracy” (March 1st), the Swiss would argue that the problem is not democracy, but its constant dilution. Local government has been emasculated in other European countries, and power has been appropriated by a single stratum of society (epitomised by the front bench of Britain’s House of Commons). This is underpinned by a view that the people as a whole are too short-sighted or ill-educated to take responsibility for their long-term interests.

Switzerland’s experience suggests the opposite. Our system of direct democracy coupled with strong local government has yielded decades of unparalleled stability, prosperity and fiscal prudence. To be sure, it is a slow process to build not only the institutions but also the values and attitudes that constitute a democratic order. But direct democracy is the best system yet designed and I am willing to bet that the Swiss franc will beat the Chinese yuan over the next ten years at least.

BRUCE MATHERS  
*Zug, Switzerland*

**SIR** – You highlighted the injustice of majoritarianism, but also the paralysis created by the checks and balances needed to constrain it. The source of both problems is the failure of standard democratic institutions to account for the differing importance of various collective choices to diverse individual interests.

We have called for an alternative form of voting, quadratic voting, which operates in a similar way to a market economy in that it leads to collective decisions that are efficient in the same way that the market allocates goods. This might be an appealing solution to the governability and stability problems of liberal market democracies.

ERIC POSNER  
School of law  
GLEN WEYL  
Department of economics  
University of Chicago

**SIR** – Another reason why democracy is losing its forward momentum is the erosion of the mainstream media. With newspapers in decline and traditional radio and television news audiences shrinking, common ground is harder to find. The commons of public opinion established by mass media, moderated by professional journalists and based on trusted sources, is being replaced by highly fractured social media.

This is leading us to the Babelisation of opinion and the Balkanisation of social intercourse.

LLOYD TRUFELMAN  
President  
Trylon SMR  
New York

**SIR** – In many Latin American countries corruption is the main reason for weakened democratic institutions. Much political time is spent on denouncing and questioning, which slows down decision-making. Parliament, parties and politicians become discredited. The national agenda slips away from their hands and towards global bodies such as the IMF, or towards protesters on the streets. The result is democracy fatigue. The solution is not less democracy, but less corruption.

OTTÓN SOLÍS  
Former presidential candidate  
*San José, Costa Rica*

**SIR** – At times your essay treated liberal and democratic values as identical, at others it silently recognised a clash. Liberalism and democracy are distinct, as Joseph Schumpeter and Friedrich Hayek richly understood. Liberalism is about how people are to be shielded from undue power, be it political, economic or social. Democracy is about who belongs in that happy circle of voice and protection.

Schumpeter and Hayek grasped that voter democracy was commonly at odds with economic prosperity. Both sought ways to insulate economic decision-making from popular pressure. Frank acknowledgment of the tensions between liberalism

and democracy could have unknotted some of your article’s odder puzzles: free and fair elections welcomed on one page, pressure-group politics and voter short-termism reprobated on the next; empowering technocrats when they limit spending, tut-tutting when they draft a European currency.

Liberalism is a doctrine of limits. One of its lessons is that not all political goodies—freedom, equality, prosperity, for example—need be simultaneously achievable. In the democratic marketplace, that lesson is a hard sell. Ought not *The Economist*, which is impeccably liberal, be more forthright and tough it out?

EDMUND FAWCETT  
*London*

**SIR** – Taiwan is an example of a democratic success. Until 1987 it was a brutal, authoritarian dictatorship ruled by martial law. Its jails were full of prisoners championing democracy. Its media were closely censored and controlled, but are now among the freest in the world. Hand-picked members of the now-defunct national assembly “elected” the president; today he is directly elected. Many countries would like to emulate what Taiwan has achieved.

WILLIAM SHARP  
Hawaii Pacific University  
*Honolulu*

**SIR** – International observers do indeed have an important role to play in the May 25th presidential election in Ukraine. However, it is misleading to say that their role is to “ensure” that the election is “clean, and seen to be” (“Saving Ukraine”, March 1st).

The role of election observers is to report accurately on what they see. They are asked to look into all aspects of the electoral process. Those observers will be not only “Western”, but drawn from across the 57 states in the Organisation for Security and Co-operation in Europe. Together with other international missions, our observers will assess whether the election meets OSCE commitments and other

international standards for democratic elections. We will make the initial findings public the day after the vote.

However, it is ultimately up to the Ukrainian authorities, including its institutions and courts, as well as electoral contestants, the media and, ultimately, the voters to ensure that the presidential election meets those standards.

AMBASSADOR JANEZ LENARCIC  
Director  
OSCE Office for Democratic  
Institutions and Human Rights  
*Warsaw*

**SIR** – You suggested that the American revolution created a “sustainable” democracy. Yet the Founding Fathers were as suspicious of democracy and the rule of the mob as they were of the king. They looked to the Roman republic for their inspiration. Alexander Hamilton wrote that “of those men who have overturned the liberties of republics, the greatest number have begun their career by paying an obsequious court to the people; commencing demagogues, and ending tyrants.”

GREG PLATT  
*Singapore*

**SIR** – John Adams observed that “Democracy never lasts long. It soon wastes, exhausts and murders itself. There never was a democracy yet that did not commit suicide.” Though maybe Abraham Lincoln contradicted that with “Government of the people, by the people, for the people, shall not perish from the earth.”

VALAL SEKSHARAN DHARMAKUMAR

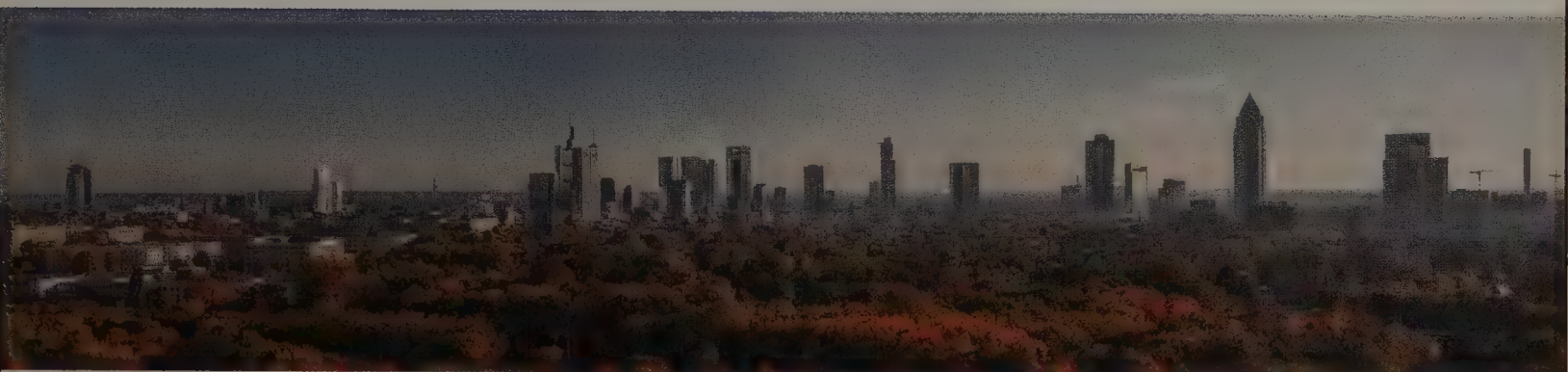
*Gurgaon, India*

**SIR** – Perhaps George Bernard Shaw put it best: “Democracy is a device that ensures we shall be governed no better than we deserve.”

ANURAG CHATRATH  
Mukteshwar, India ■

Letters are welcome and should be addressed to the Editor at  
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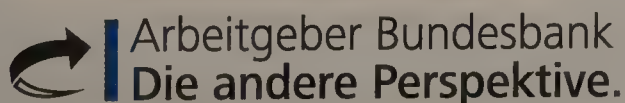
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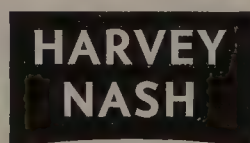
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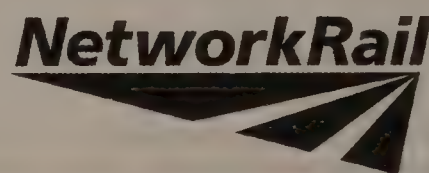


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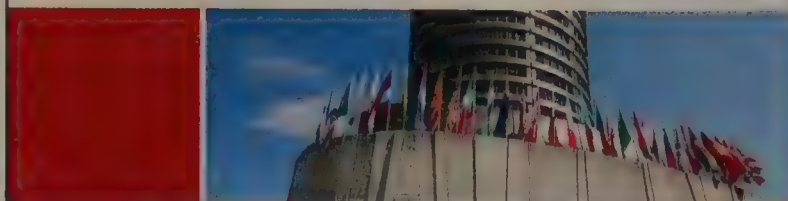
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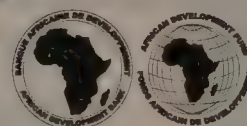
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## A bad boom

**Graft in India is damaging the economy. The country needs to get serious about dealing with it**

**I**N THE early hours of February 20th 2010 Uday Vir Singh, an Indian forestry officer, bluffed his way past a private militia guarding a dusty port called Belekeri. For months suspicious-looking convoys of trucks had been thundering across India to the port's quays on the country's west coast, just south of the Goan beach where the super-spy mayhem which opened "The Bourne Supremacy" was filmed.

Mr Singh is no more a Jason Bourne than the next entomologist—he has a doctorate on metamorphosis in insects—and the infiltration he mounted with a few colleagues led to no gunplay. But it did uncover a massive scam, with hundreds of officials and politicians in the state of Karnataka in the pockets of an illegal mining mafia that, over five years, had made profits of \$2 billion or more shipping illegal iron ore to China.

Such scandals have rocked Asia's third-largest economy in the past decade. A lot of transactions that put public resources into private hands—allocations of radio spectrum, for example, and of credit from state banks—have come under suspicion. Of the ten biggest family firms by sales, seven have faced controversies. The brash new tycoons who came of age during the boom years of 2003-10 are under a cloud, too. Before he became boss of the central bank

last year, Raghuram Rajan worried publicly that India could start looking like an oligarchy along the lines seen in Russia: "too many people have got too rich based on their proximity to the government."

In a recent poll 96% of Indians said corruption was holding their country back, and 92% thought it has got worse in the past five years. One senior figure in the ruling Congress party worries about the feeling that "the law for the common people doesn't apply to the political princelings and industrialists."

In December voters in Delhi's state elections supported the anti-graft Aam Aadmi Party strongly enough for it to get into power. Its leader, Arvind Kejriwal, held his new job only briefly before resigning to fight the national election taking place in April and May. Narendra Modi, the Bharatiya Janata Party (BJP) candidate for prime minister who is currently ahead in the polls, says he will purge India. That said, critics note that his personal rapport with tycoons, credited for some of the industrial success of his home state of Gujarat, may not make him the most thoroughgoing of purgatives. For his part, the outgoing prime minister, Manmohan Singh, claims history will absolve his administration of its reputation for graft. The leader of the Congress campaign, Rahul Gandhi, a scion of India's most fam-

ous political dynasty, says he is a reformer, though it is hard not to see his family's secretive habits as part of the problem.

India needs its private sector to build roads, factories and cities. But the relationship between companies and the state is broken. Corruption produces bad decisions; concern over corruption produces indecision. Graft does not function, as some claim that it does elsewhere, as an unseemly but expedient market solution to inert bureaucracy, greasing the seized-up wheels of industry. It has put grit in those wheels. Loans to industries with graft problems have infected the largely state-run banking system; at least a tenth of its loans are sour. Inept cronies have messed up vital road and power projects. Mines and other assets lie idle as courts dither over how crooked their owners are.

### Private paralysis

Faced with this mess, private firms have cut investments; a fall in investment from 17% of GDP in 2007 to 11% in 2011 is one reason why GDP growth has slumped to 5%, the lowest level for a decade. And ineffective efforts to deal with corruption seem only to have made things worse. India's cranky legal system, its overlapping investigative agencies and its raucous media have meant that responses to the problem may have done as much to paralyse business in general as to punish wrongdoers. Few senior people go to jail; but officials fear being accused of malfeasance, so many think the safest course of action is to make no decisions at all.

To rumble the iron-ore scam Mr Singh, the forestry officer, first went undercover in a town called Bellary, the hub of illegal



iron-ore mining in the state of Karnataka. The task fell to him because many mines come under the remit of the forestry agency, and work on a previous pink-granite scandal had earned him a reputation in the area. A day's drive north of the gleaming technology campuses of Bangalore, Belary felt like the wild west. The Reddy family, which had close connections to the state's BJP-led government, appeared to rule the roost. A businessman who visited a Reddy associate recalls being escorted by men with automatic weapons to a mansion with a Bell helicopter and a collection of 13 cars. "They were like Indian warlords," he says.

Each day up to 2,000 trucks took the ore to the port at Belekeri in convoys as much as 25km (16 miles) long. Accounts and bank details found on computers taken into custody at Belekeri created a trail to 70 families who had bribed officials and politicians effectively enough to cause an "administrative collapse". Karnataka's anti-corruption body prepared a 25,000-page report. The affair is now in the hands of the police and the courts.

### Rumours and rupees

Iron ore is a smallish part of the picture, but how small is hard to say; quantifying graft in India is a frustrating affair, and distracting conspiracy theories and innuendo abound. Bankers in Mumbai claim that the rupee, one of the world's most actively traded currencies, is manipulated by politicians for personal gain. The business interests of the present cabinet—if you believe the rumours—include a real-estate empire in Singapore and an insider-trading ring run by a minister's son.

To try to get to grips with the problem *The Economist* has interviewed politicians, industrialists, bureaucrats, financiers and investigators. Their views, provided on a basis of anonymity, point to a well-established system of graft, partly linked to political funding. Few people think that anyone important will go to jail, but despite this some reckon that the next decade will be less corrupt than the last one.

Petty corruption includes slipping

banknotes to the police and to officials to get paperwork done. According to Transparency International, an organisation that tracks corruption, 54% of Indians say they paid a bribe in the last year, compared with 44% in Nigeria and 36% in Indonesia. Jobs with opportunities for extortion are sought after and a slice of the profits funnelled up the ranks.

Firms offer "speed money" to avoid red tape. "Everybody pays," admits an executive at a firm known for its good governance. A billionaire says, "it is hard for any business to be fully compliant... When you are dealing with the tax people or the environmental people the consequences for the business become very severe—they can hold money in escrow or imprison you." But it is the boom in large-scale rent-seeking—the use of wealth to distort the allocation of resources from which more wealth could be produced—that has opened up a new era of corruption.

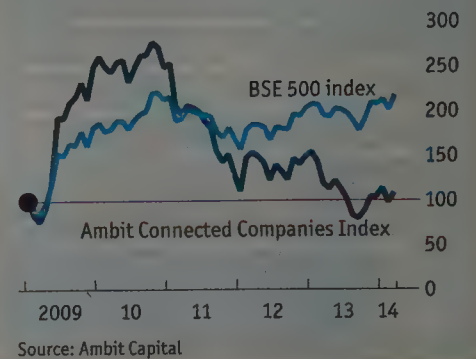
In the old days graft was almost quaint. Before the liberalisation that began in 1991 firms faced the "licence-permit Raj", a regime of rules and quotas that was more easily navigated with the help of carefully deployed smallish bribes. Occasionally there were big scandals. In the 1980s allegations that a \$50m kickback had been paid on an Indian arms deal by the Swedish firm Bofors engulfed the government of Rajiv Gandhi.

But India's entry into the global economy created unprecedented opportunities for dishonesty. Property became a multi-billion-dollar business governed by officials paid a pittance. The value of mining licences soared along with commodity prices. Privatisations and public-private partnerships became common, and prone to manipulation. At the same time the elite cadre of the civil service, the Indian Administrative Service (IAS), has decayed. A top officer puts the clean and motivated proportion of its 5,000 members at just 10%—and adds that at the other end of the spectrum 15% are "scum".

*The Economist* has looked at three ways of quantifying the profits from rent-seeking. The first is to tally the money made from scams, based on estimates from officials and investigators. (Our calculation uses realised profits, or the present value of anticipated profits. We use the low end of some official estimates.) The second approach, which is applied more widely in our new index of cronyism (see page 57), measures the relative performance of billionaires in industries, such as mining and property, that are prone to rent-seeking relative to those in other lines of business (see chart 1). A final method tracks the relative performance of an index of politically linked listed firms constructed by Saurabh Mukherjea of Ambit Capital, a broker (see chart 2). An average of the approaches suggests the gains from rent-seeking over the

### Over the worst?

India's politically connected firms v stockmarket  
January 2009=100



past decade peaked at about \$80 billion. That is equivalent to 7% of the stockmarket's value today. It is worth noting, though, that the share of GDP for the rent-seeking billionaires and the premium on politically connected firms are no longer what they were in the boom years.

Not all of the gains were achieved through corruption. But if one were to assume politicians and officials got an average cut of 5-15%—a rate consistent with the trail investigators have found in the iron-ore and telecoms scams, then total bribes paid would amount to \$4 billion-12 billion.

Many bribes, like much else in India, can be paid for in cash, which can be deposited at banks using "Benami", or nominee, accounts, or accounts in servants' names. Gold is another possibility; there is a lot of it about, with India's bullion imports since 2002 worth 14% of current GDP. Property deals are also used to launder cash—even legitimate deals often have a cash component.

### Funnelling funds

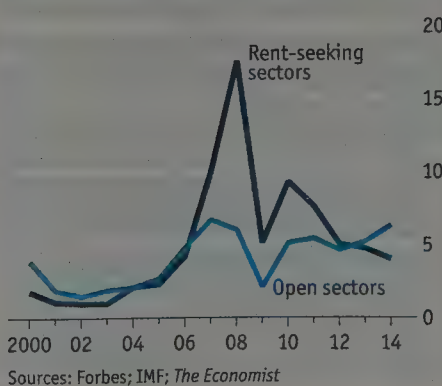
On big deals the obliging politicians and officials may get a stake in the business. India's audit agency believes land deals near Delhi Airport involved firms that were fronts for politicians. By using layers of legal shells politicians can be made beneficiaries without being easily traced. Taking the trail offshore can add still more concealment.

In an office in Delhi an anti-corruption tsar is looking at a piece of paper. On it is the name of a fixer in Singapore who is active in the Indian city of Hyderabad and who funnels illicit funds offshore. The official says there are about 25-50 such individuals, known as "settlers", serving India, mainly from Singapore, Dubai and London. The scale of activity is "immense". By cross-checking India's trade statistics with those of its trading partners, Global Financial Integrity, a research organisation, estimates that gross illicit outflows from India have averaged \$52 billion a year since 2007.

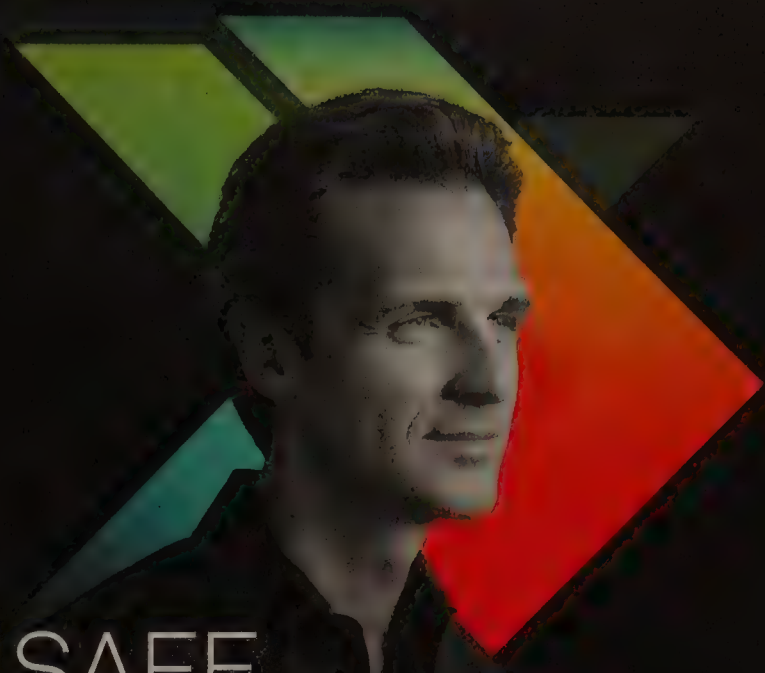
One way of transferring bribes offshore is "mis-invoicing". For example, a firm in India controlled by a politician will buy di-

### Nothing going up but the rent

Indian billionaires' wealth by source, as % of GDP







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Past performance is no guarantee of future results. \*Source: Morningstar. During 2013 (1/02/13 to 12/31/13), over 87.60% of "traditional bond fund" (as defined by all share classes of funds in the Morningstar Intermediate Term Bond category) produced a negative return. \*\*Source: Morningstar 12/31/13. The BlackRock Strategic Income Opportunities Fund, which lies in the Nontraditional Bond category, had a higher average annualized total return than the Morningstar Intermediate Term Bond category (traditional bond funds) average and lower interest rate risk (as measured by effective duration) over the 1 year, 5 year and since inception periods. Duration is a measure of a bond fund's sensitivity to interest rates. For every year of duration, a 1% change in interest rates will lead to a 1% change in the opposite direction of a bond fund's value. Institutional shares are offered to participants in certain wrap fee programs and other sponsored arrangements at various minimums. Institutional shares are not available to all investors and may have certain restrictions and limitations. Fixed income risks include interest rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments.

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► amonds or software from a party abroad at inflated prices before importing them. The excess profit booked by that second party, also controlled by the politician, is pocketed outside India—tax-free and with little risk of investigation if it is a shell company domiciled in a free-trade zone such as Dubai. Mr Singh found widespread mis-invoicing in the iron-ore scam.

How much Indian money is stashed abroad? India's tax authorities have a database of offshore-account holders given to them by the German government, but appear to be under political pressure not to release it. "They're sitting on it," says the anti-graft tsar in Delhi.

The ex-manager of a unit serving Indians at a large Swiss bank says the firm had \$10 billion of assets from resident Indians and a market share of 10-20%. The Russian and Far East desks were much busier. (This fits with the finding that Indians buy just 3% of "prime" London property, a popular investment with plutocrats.) The banker adds that India's big political clans may have been dealt with by a separate wing of the bank. Adding in an estimate for them, he calculates that the offshore assets of Indian residents held in all global banks as between \$100 billion and \$150 billion.

How does that fit with estimates of illicit wealth overseas? The anti-corruption boss says his agency has identified assets of \$2.3 billion, mainly held through trails of offshore shell companies and accounts in tax havens, and that his understaffed agency tracks about 5-10% of such activity—suggesting a total pot of \$23 billion-45 billion.

### Bringing it all back home

Some of this comes back to India through mis-invoicing. But wealth is also "round tripped" back under the guise of foreign investment. An insight into round-tripping, in this case of legitimate funds, came in a 2012 British legal case involving UBS in London. Its bankers ran a scheme in which \$250m of offshore funds belonging to Reliance ADAG, an Indian firm, were invested in one of its subsidiaries in India via a vehicle in Mauritius. The London tribunal judged that this broke Indian rules. (In a 2012 statement Reliance said that no action had been brought against it in London and that the matter had been dealt with and closed by Indian regulators.) Lawyers for a banker involved argued the practice was "widespread". India's regulators say they have since cracked down.

When the bribes come home they undoubtedly enrich some Indian politicians. A 2008 telecoms scandal saw a minister allocating spectrum on iffy grounds. The government turned a blind eye. "We knew some of the decisions taken by him were blatantly illegal...[and] done to raise large amounts of money," says another minister of that time who was close to the prime minister. The more pernicious danger is

that the political system as a whole depends on the bribes. For one thing they seem to provide a significant source of election funds; for another the big parties increasingly need to court small parties in order to rule, and allowing them to get rich when in power seems to be one of the ways that this is done (it was a factor in the telecoms case).

To hold a rally at which Sonia Gandhi, the head of Congress, appears costs up to \$330,000. The buses, hats and sound-system all have to be paid for. To run a credible campaign in a seat in a parliamentary election costs between \$300,000 and \$3m per candidate, depending on the importance of the seat and the competition. Armies of volunteers have to be paid, and booze and SIM cards given out.

Add in state and local elections and the total cost of politics in India between 2010 and 2015 for all parties will be \$5 billion, calculates the top Congress politician, which would work out as a substantial fraction of the estimated bribe pool. Strict campaign-finance rules mean most of this has to be raised illegally.

A third of campaign funds are raised centrally by parties and the rest locally. Parties have arms-length treasurers who act as their bankers. Those handling bribes take a cut for themselves.

Illegal party funding is at the heart of corruption. But politicians are in denial, says the Congress bigwig. "Nobody wants to admit that they have taken money. It is a completely hypocritical system." New laws, for example a Lokpal Act passed in December to create a new anti-graft agency, just add to the huge weight of legislation dating back to the 1980s that is cynically passed and not enforced.

There is certainly a lack of will to enforce rules. A second anti-graft boss cheerfully admits that prosecutions take at least a decade; in the past three years only 25 top civil servants have been investigated and none has lost his job. Regulators say that if they act against the interests of industrial-

ists they can get an earful from politicians.

But there is a more optimistic view. When it comes to low-level graft, reformers hope that technology can eliminate the middlemen who seek to benefit. Putting train reservations online has removed a lot of opportunities for bribery. Then there are chunks of the economy that are already pretty free of graft, such as consumer goods and the technology business; in the past few years it is largely in those sectors, more than in the rent-seeking ones, that billionaires have made hay.

Some institutions are clean, too. They include the central bank and the Supreme Court, which on March 10th introduced rules to speed up trials of politicians. The banking system, despite its bad debts, has not been captured by tycoons as were those in South-East Asia and Russia in the 1990s. In February a chunk of radio spectrum was auctioned off smoothly, a process that makes impropriety harder.

And the messy response to a decade of graft, though inefficient, has started to change financial incentives. Sporadic court actions—mining suspended in some areas, some spectrum allocations being cancelled—have made rent-seeking less profitable, and foreign investors have begun to shun such sectors. Ambit's index of politically linked firms, which did well in the late 2000s, has underperformed badly since. India has only a middling rank on our cronyism index.

Perhaps market forces and a backlash from voters will turn the tide. But even if they don't, citizens like Mr Singh, the insect-expert turned mafia-buster, will fight on. He doesn't carry a phone lest it betrays his location; he has a bodyguard, and police guard his home. But in an office decorated with posters of plants the ferocity he brought to his fight can still boil over. The iron-ore scam made him feel "so angry that I told myself either you do something or you die," he says. "What will I be doing in three years' time? I am going to pursue this. I am going to bring it to a logical end." ■







The mid-term elections

# Can the Republicans win the Senate?

JACKSON, MISSISSIPPI

If they do, Barack Obama will have a tough final two years

THE Grand Old Party is in a fighting mood. On March 11th David Jolly, a Florida Republican, won a special election to the House of Representatives by relentlessly bashing Obamacare. His party hopes to use the same tactic to hold the House and capture the Senate in November. That would seriously cramp Barack Obama's style for his final two years in office.

It would also make Mitch McConnell of Kentucky (pictured, with rifle) the top dog in the Senate—unless he loses his own seat. As it happens, Mr McConnell is among the most vulnerable Republican incumbents (see map and table).

An owlish, soft-spoken backroom deal-maker, he inspires little passion among his supporters. He faces a tough race against a Democrat in November and, before that, a

bruising primary battle against a challenger from the right. Matt Bevin, a businessman and father of nine (including four adopted from Ethiopia), chides Mr McConnell for supporting bank bail-outs, raising the debt ceiling and not trying hard enough to repeal Obamacare. Hence the antique rifle Mr McConnell brandished at a conservative pow-wow on March 6th—he needs to persuade the hard right that he is not squishy.

Republicans need a net gain of six seats to capture the Senate. That is a lot, but the playing field favours them. Senators serve staggered six-year terms: every two years, a third of them come up for re-election. This year that includes a clutch of Republican states that Democrats won in the rout of 2008, when Barack Obama was first

elected president. Defending such places would be hard even if the economy were bubbling and Mr Obama's approval rating were not a sickly 43%—only somewhat better than George W. Bush's in 2006.

Four Democrats are fighting for their seats in states that Mr Obama lost in 2012: Mark Begich of Alaska, Mark Pryor of Arkansas, Mary Landrieu of Louisiana and Kay Hagan of North Carolina. None has an easy road to victory. Mr Pryor and Ms Landrieu both hail from political dynasties, but both face tested and well-funded opponents. In 2008 Mr Begich barely eked out a victory over Ted Stevens, the Republican incumbent, even though Mr Stevens had been convicted of ethics violations just eight days before the election (those convictions were later vacated).

Eight senators are retiring or have quit. Of these, five are Democrats, of whom three come from states that Mr Obama lost by more than ten points in 2012: Jay Rockefeller of West Virginia, Max Baucus of Montana and Tim Johnson of South Dakota. Republican candidates enjoy healthy poll leads in all three states. The other two come from states that Mr Obama won by less than ten points: Tom Harkin of Iowa ►►

## Democrats in the crosshairs

Selected Senate races, 2014

### Vulnerable Democrat-held seats

South Dakota, West Virginia, Montana

Two red-state Democrats retiring; another appointed ambassador to China. All likely Republican pickups

Michigan, Iowa

Two Democrats retiring in swing states; both possible Republican pickups

Alaska, Arkansas, Louisiana, North Carolina

Democratic incumbents fighting to survive in states won by Mitt Romney in 2012

### Vulnerable Republican-held seats

Kentucky

The Senate's top Republican, Mitch McConnell, faces tough primary and general-election opponents

Georgia

Paul Broun leads the Republican scrum for this open seat; his eccentric views could give Democrats an opening

Source: The Economist

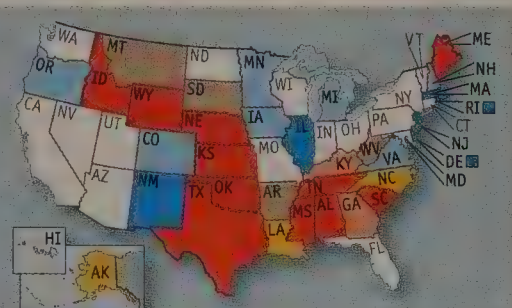
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## 2014 Senate races

Seats held by Democrats

Safe D Likely/Leans D Likely/Leans R Toss up

Seats held by Republicans

Safe R Likely/Leans R No election

Source: University of Virginia, Centre for Politics



▶ and Carl Levin of Michigan.

By contrast, all the retiring Republicans hold seats (in Georgia, Nebraska and Oklahoma) that their party can hold unless it does something stupid. That is not impossible. Republican primary voters sometimes pick candidates more for their ideological purity than their electability. One of the leading contenders for the open seat in Georgia, for example, is Paul Broun, who has called evolution and the Big Bang theory "lies straight from the pit of Hell".

Also, six incumbent Republicans face primary challenges from the right (John Cornyn in Texas has already beaten one). Thad Cochran in Mississippi, who is 76 and scores badly on rankings of fiscal conservatism, is up against Chris McDaniel, a state senator born in the same year that Mr Cochran was first elected to Congress.

Joining a protest outside Mississippi's lone abortion clinic last week, Mr McDaniel told the crowd that "this country is in an age of great uncertainty" but reassured them that he would defend "traditional values". The crowd received him well. Jeremiah Boddy, a student at Hinds Community College, called Mr Cochran "a southern gentleman and a scholar...but after 41 years in Washington we need a change." Mr McDaniel has won endorsements from influential conservative groups such as the Senate Conservatives Fund (SCF), the Tea Party Express, FreedomWorks, the Madison Project and the Club for Growth.

A Republican does not have to be Che Guevara to attract the Tea Partiers' ire. Senator Pat Roberts in Kansas, for example, is "a solid conservative", says Larry Sabato, a political analyst at the University of Virginia, adding: "I defy you to look at his voting record and see what he's done wrong." But still the SCF has endorsed his primary opponent, Milton Wolf, a radiologist and distant cousin of Mr Obama.

### Not in Kansas any more

Mr Wolf is a fiery and engaging speaker; Mr Roberts is about as exciting as a bowl of cold oatmeal. Also, Mr Roberts seems to have taken the saying "get out of Dodge" a bit too literally: the home at which he is registered to vote in Dodge City, Kansas belongs to two campaign donors. In 2012 he spent a whopping 65 days in the state.

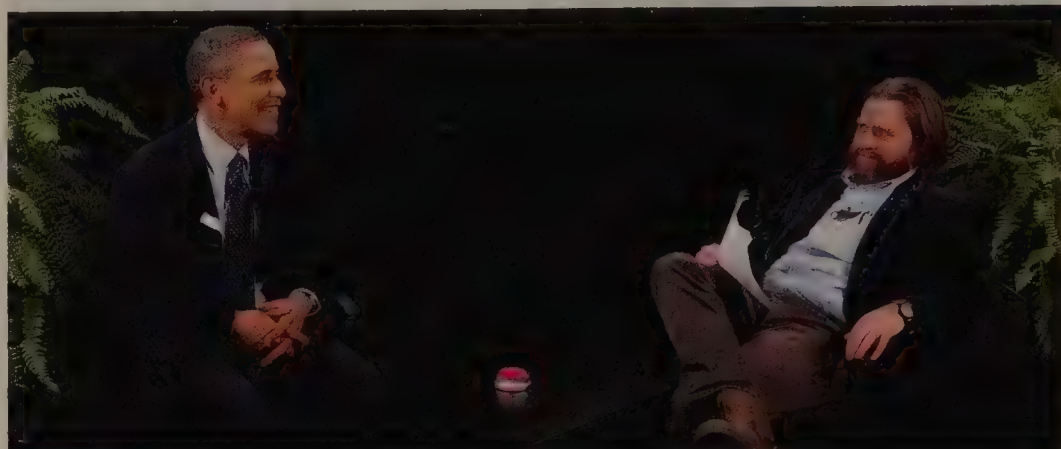
Richard Lugar, a longtime Indiana senator, grew similarly distant from his home state and lost a Republican primary there in 2012. Mr Sabato calls Mr Roberts "a Lugar waiting to happen". However, unlike Mr Lugar, Mr Roberts "woke up early, or the party woke him up" to the danger. And Mr Wolf did himself no favours recently when he was discovered to have posted gruesome x-ray images on his Facebook page and joked about them ("What kind of gun blows somebody's head completely off? I've got to get one of those.")

Tea Partiers are also gunning for Repub-

lican incumbents Lindsey Graham and Lamar Alexander, senators from South Carolina and Tennessee. But these two veterans are polling well and have huge cash advantages over their challengers. The same is true of Mr McConnell, who is a fearsome political tactician and can outspend Mr Bevin several times over. Mr McConnell said to the *New York Times*, of the various insurgent groups: "I think we are going to crush them everywhere." He may be right. Beating a sitting senator in a primary is hard: since 1946 it has been done just 46 times in 968 attempts—a 5% success rate.

With nearly eight months to go, all pre-

dictions should be taken with buckets of salt. But most analysts think the Republicans will pick up at least three seats, and probably more. How many more, says Mr Sabato, depends on "whether there is a wave...and events will determine that." Mr Obama is nervous enough to have delayed some of the less-popular bits of Obamacare until 2017. Yet Republicans should beware of overconfidence. They have lost winnable elections before. And even if they capture the Senate this year, they may struggle to hold it in 2016, when they will face a larger, more diverse electorate and have to defend more vulnerable seats. ■



Obamacare

## Searching for the young invisibles

NEW YORK

The latest enrolment figures are not terrible, but not great either

ON MARCH 11th Barack Obama appeared on a spoof chat show hosted by Zach Galifianakis, an actor best-known for playing a loveable idiot in "The Hangover". "Have you heard of the Affordable Care Act?" Mr Obama asked. "Oh yeah. I heard about that. That's the thing that doesn't work?" replied Mr Galifianakis. Mr Obama's performance was extremely funny, but his purpose was serious. Somehow, he has to persuade young people to sign up for Obamacare. This is hard, since health insurance is expensive and many young people think they are invincible. "Invisible?" asked Mr Galifianakis.

The same day the health department revealed that, as of March 1st, 4.2m Americans had signed up for coverage through Obamacare's insurance exchanges. There is not much time left until April 1st, the deadline for Americans to have insurance or pay a penalty. The Congressional Budget Office had expected 7m to sign up this year; it recently lowered that projection to 6m. In February 942,000 people enrolled, fewer than in January. Plans to fine people for failing to have insurance keep being delayed or watered down.

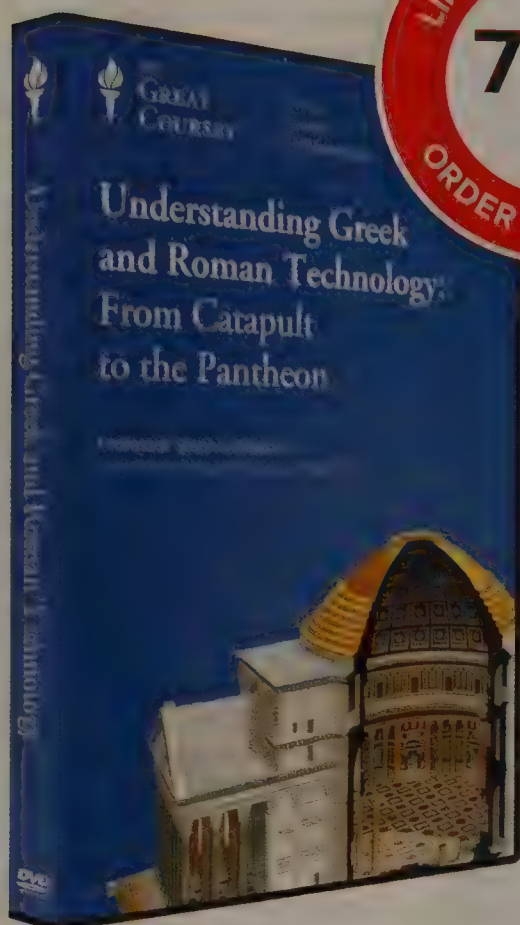
Three questions remain unanswered. First, how many of the newly enrolled

were previously uninsured? According to a recent survey by McKinsey, a consultancy, 27% of them lacked coverage last year. But the health department has yet to give its own figure. Second, how many of the newly enrolled are sick? Obamacare bars insurers from asking applicants about their health. So they do not know how ill their new members are; they use age as a rough proxy.

This leads to the third question: are insurers enrolling enough young people to keep costs—and therefore premiums—affordable? Obamacare relies on fees from the healthy to offset the cost of covering the sick. If too few youngsters sign up, insurers will probably raise their rates next year. So far, the 18-34s are about 25% of those who have chosen coverage. That figure would have to be 40% to help keep rates stable, by one estimate.

Small wonder Mr Obama is so anxious for young people to buy insurance. On a call with reporters, Kathleen Sebelius, the health secretary, said she expected a surge of young people to enroll by April. The marketing blitz may help. By the afternoon of March 11th, about 19,000 people who watched Mr Obama's video on FunnyorDie.com had clicked straight through to Healthcare.gov.





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## Spies and the Senate

## Di-spy

WASHINGTON, DC

**The committee that oversees the CIA accuses the agency of spying on it**

**F**EW speeches made on the Senate floor have the impact their orators hope for. Dianne Feinstein's speech on March 11th, in which she accused the CIA of hiding documents from and then bullying the Senate committee which oversees its activities, was an exception: it caused a storm. American spooks often claim that they are subject to far more oversight than their competitors in other countries and therefore ought to be trusted not to abuse their powers. This only holds if the overseers are allowed to do their job.

Accusing the CIA and NSA of being out of control is something of a political cliché, rather like accusing the president of acting unconstitutionally or Congress of being useless. But it is not one that Mrs Feinstein (pictured) has used before in her 21 years in the Senate, four of them as head of the committee on intelligence. Asked what she thought of Edward Snowden's intelligence leaks on NBC's *Meet the Press*, she responded that, "to glorify this act is really to set...a new level of dishonour".

## Overseers observed

At issue is the investigation by the intelligence committee of the CIA's programme of rendition (snatching terrorist suspects and moving them from one country to another), detention and interrogation, which began in 2002. Barack Obama ended the programme five years ago, by which time much of it had ceased to operate. (The detention part, symbolised by Guantánamo Bay, has been harder to end). The president declined to order an investigation into what the CIA had been up to, but members of the oversight committee voted by 14-1 to conduct their own.

It has been a slow process: the investigation began in 2009. The CIA provided 6.2m pages of documents for the committee's staff to sift through. Rather than allowing staff to carry this hoard off to their offices on Capitol Hill, the CIA set up a secure computer network somewhere in northern Virginia. The agreement, according to Mrs Feinstein, was that after setting up the network the CIA would no longer have access to it.

In May 2010, staff on the committee noticed that some of the documents they had already examined had vanished from the network. Mrs Feinstein says that, when confronted with this, the CIA first denied that the documents had gone and then, deploying the first reflex of office workers



**Is someone recording this?**

everywhere, blamed the IT department. Later on, the agency claimed that the order had come from the White House.

The most sensitive of the vanished documents is an internal CIA review of the rendition, detention and interrogation programme, which is said to be more damning of the agency's activities than its bosses have been in public.

The CIA thinks that the intelligence committee ought not to have had access to the document, and certainly ought not to have made a redacted copy and locked it away in a safe in the Hart building, a modernist block diagonally opposite the Capitol where some senators have offices. So concerned was the agency that the committee had a copy of the internal review that the CIA's chief lawyer brought the removal of this document to the attention of the Justice Department.

It was this move that seems to have prompted Mrs Feinstein to speak publicly about an argument that had been kept secret for several years. Her accusations are remarkably direct. In her speech she noted that the same lawyer who had asked the Justice Department to look at what her staff had been doing had been a lawyer in the CIA unit that managed and carried out the rendition, interrogation and detention programme under investigation. Mrs Feinstein added that this lawyer's name appears more than 1,600 times in her committee's report. Though it has yet to be declassified, those mentions are unlikely to be flattering.

By chance John Brennan, the CIA's director, was scheduled to give a rare public speech, at the Council on Foreign Relations, a think-tank, shortly after Mrs Feinstein accused his agency of undermining her investigation. Mr Brennan said that the CIA has had "spirited and even sporty discussions" with its congressional overseers, but that relations between them and the

agency were generally good.

He also stuck up for his staff. It was important, he said, to protect the reputations of "the women and men who faithfully did their duty in executing this programme". As for the accusation at hand, he reckoned that "a lot of people who are claiming that there has been this tremendous sort of spying and monitoring and hacking will be proved wrong."

Even if he is proved right, by crossing Mrs Feinstein the CIA has lost its most influential ally in Congress. Members of both houses, many of whom have been supportive of the intelligence services since the Snowden leaks, are sensitive about the privileges of their office. Any hint that the CIA is thwarting Congress is likely to unite members who can agree on nothing else. For the president, who has already announced reforms to the NSA that are proving hard to put into practice, changing the workings of the secret state has just become more complicated. When pondering this he should remember that the CIA's actions are constrained by law, but also by the memory of its past mistakes. Making public the assessment of a now-defunct programme is part of this. ■

## Military strategy

## War games

**To understand war, American officials are playing board games**

**T**WO evenings a month, four dozen defence and intelligence officials gather in an undisclosed building in Virginia. They chat informally about "what if" scenarios. For example: what if Israel were to bomb Iran's nuclear sites? Recent chats on this topic have been fruitful for a surprising reason, says John Patch, a member of the Strategic Discussion Group, as it is called. Nearly a quarter of those who regularly attend play a board game called *Persian Incursion*, which deals with the aftermath of just such an attack. For half the players, such games are part of their job.

You don't need a security clearance to play *Persian Incursion*. Anyone can order it from *Clash of Arms*, a Pennsylvania firm that makes all kinds of games, from *Epic of the Peloponnesian War* to *Pigs in Space*. Yet playing a war game is like receiving an intelligence briefing, Mr Patch says. It forces players to grapple with myriad cascading events, revealing causal chains they might not imagine. How might local support for Iran's regime be sapped if successful Israeli raids strengthen claims that its anti-aircraft batteries were incompetently sited? Might a photo purportedly showing Iran's presi- ►►



► dent with a prostitute help the Saudi monarchy contain anti-Jewish riots? Might those efforts be doomed if the photo were revealed as a fake?

Paul Vebber, a gameplay instructor in the navy, says that in the past decade the government has started using strategy board games much more often. They do not help predict outcomes. For that, the Pentagon has forecasting software, which it feeds with data on thousands of variables such as weather and weaponry, supply lines, training and morale. The software is pretty accurate for "tight, sterile" battles, such as those involving tanks in deserts, says an intelligence official. Board games are useful in a different way. They foster the critical but creative thinking needed to win (or avoid) a complex battle or campaign, he says.

Some games are for official use only. The Centre for Naval Analyses (CNA), a federally funded defence outfit, has created half a dozen new ones in the past two years. Most were designed by CNA analysts, but commercial designers occasionally lend a hand, as they did for *Sand Wars*, a game set in north-west Africa.

CNA games address trouble in all kinds of places. In *Transition and Tumult*, designed for the marine corps, players representing groups in Sudan and South Sudan try to whip up or quell local unrest that might lead American forces to intervene. In *The Operational Wraparound*, made for the army, players struggle to stoke or defeat a Taliban insurgency in Afghanistan. *Avian Influenza Exercise Tool*, a game designed for the Department of Agriculture, shows health officials how not to mishandle a bird-flu epidemic.

Board games designed for the government typically begin as unclassified. Their "system", however, becomes classified once players with security clearances begin to incorporate sensitive intelligence into it, says Peter Perla, a game expert at CNA. If an air-force player knows that, say, a secret bunker-busting bomb is now operational, he can improve the dice-roll odds that a sortie will destroy an underground weapons lab. During official gaming sessions, analysts peer over players' shoulders and challenge their reasoning. Afterwards, they incorporate the insights gleaned into briefings for superiors.

One reason why board games are useful is that you can constantly tweak the rules to take account of new insights, says Timothy Wilkie of the National Defence University in Washington, DC. With computer games, this is much harder. Board games can also illuminate the most complex conflicts. Volko Ruhnke, a CIA analyst, has designed a series of games about counterinsurgency. For example, *Labyrinth: The War on Terror, 2001-?* (sold by GMT Games of California) models "parallel wars of bombs and ideas", as one reviewer puts it,

## Gun safes

# Locked and loaded

WARRENTON, VIRGINIA

Real men need big safes to hold all their guns

LIVE fire crackles from the range at Clark Brothers, a gun shop in Virginia. Inside, the most striking things are the enormous gun safes. Some of these metal boxes, which cost over \$1,000, can withstand hours of exposure to wildfires and being dropped from 200 feet.

They are the result of a shift in gun ownership. Surveys suggest that the proportion of American households that own guns has declined from about 50% in the early 1980s to about 35% now. (These figures are subject to sampling error: when men answer the phone they are more likely than women to say there is a gun in the house. But repeated surveys tell a consistent story.)

Even as the number of gun-owners is falling, the number of guns in America appears to be rising. This can only be tracked indirectly—there is no national gun registry and never will be. However, one can look at the number of background checks requested by gun shops, which has risen. This is not a perfect measure, because a background check may not be followed by a sale or, conversely, may be the prelude to the purchase of multiple guns. Another way is to infer sales from numbers collected by the Bureau of Alcohol, Tobacco, Firearms and Explosives, which tracks how many guns are made in America as well as imports

and exports. Both measures show an increase in the number of guns bought, with a sharp uptick beginning in 2006, when Democrats won control of Congress (see chart).

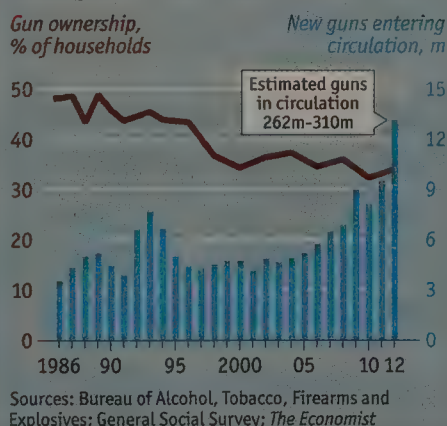
Not all Democrats are anti-gun, of course. When asked how many firearms he owned, Brian Schweitzer, the former governor of Montana, said: "More than I need but less than I want." But still, the National Rifle Association persuaded "a lot of gun lovers that their rights would be taken away from them by Democrats and they had better stock up while they could", says Philip Cook, a rifle-owning economics professor at Duke University. Mr Cook estimates that about 5% of owners own most of the guns.

Since there are hundreds of millions of guns in America (the Small Arms Survey, a Swiss research project, puts the number at 89 per 100 people, placing the country comfortably ahead of second-place Yemen, with 55), this means that some gun collectors need a lot of storage space. In the old days they might have displayed their guns in a glass-fronted cabinet, but worries about children and theft have made this less popular. Now the fashion is for big safes.

For some gun owners the safes themselves have become the thing to show off, their bulk and decoration hinting at the firepower contained within. "Because they are so pretty people are putting them in their front rooms," says Brandon Payne of Liberty Safe, a safemaker.

The company sells 500 safes a day, most of them big ones and mostly to people with lots of guns: its Fatboy model can hold 64 long guns and a clutch of pistols. Competitors such as Fort Knox and Browning allow buyers to customise the safes with wood-panelled interiors, dehumidifiers and lighting kits on the inside, and biometric locks and artwork on the outside. Such devotion to providing luxurious housing for weapons is a reminder to gun-control advocates of what they are up against.

## More guns, fewer owners



on a board depicting much of Eurasia and Africa.

Even training for combat itself can be helped with dice and cards. Harpoon, a game about naval warfare, has proved so accurate in the past that hundreds of Pentagon officials will play it when the next version comes out in a couple of years, says Mr Patch. One of its designers, Chris Carlson, is also responsible for the "kinetic" as-

pects of Persian Incursion (ie, the bits that involve shooting). Mr Carlson is a former Defence Intelligence Agency analyst; Persian Incursion's data on the nuts and bolts of assembling and commanding bomber, escort, and refuelling aircraft "strike packages" for destroying Iran's nuclear sites is so precise that on at least two occasions intelligence officials have suggested that he is breaking the law by publishing it. ■



## Education in California

## Dance of the lemons

LOS ANGELES

**Reformers want to make it easier to sack bad teachers**

**J**OSH, a young social-studies teacher working in a tough part of Los Angeles, had been on the job for less than a year when word came that it might not last much longer. Its public finances in ruins, California was slashing budgets and laying off thousands of teachers. Josh's headmaster fought to keep him, but his hands were tied; under the state's strict "last in, first out" seniority rules, enshrined in statute, the most recent recruits had to be fired first, regardless of ability.

Luckily Josh found a job at a charter school (funded by the state but run independently). Three years later, he says he can understand why experienced teachers deserve protection; as a newbie, the help he received from veterans at his first school was invaluable. Yet others seemed to be serving time; it was hard to see them "chuckle on" in the cafeteria when he was being told to leave.

Thanks to its mighty teachers' unions, California has largely withstood the gusts of change that have blown through the education systems of other states in recent years. Only nine others force school districts to make lay-offs according to seniority. But a lawsuit being heard in a dingy courtroom in downtown Los Angeles may change that. Students Matter, an advocacy group formed by David Welch, a rich entrepreneur from Silicon Valley, is fighting to overturn five laws governing the hiring and firing of teachers. If Mr Welch is even partly successful the changes could be far-reaching, and not only in California.

The lawsuit, brought on behalf of nine schoolchildren, focuses on three areas: teacher tenure, dismissal procedures and the seniority rules. In California, administrators must in effect decide whether to grant teachers tenure (permanent employment) after just 18 months; too soon, say critics. Firing bad ones is nightmarishly hard, partly because teachers may appeal to a three-person panel on which two other teachers sit; one teacher accused of sexually abusing 23 students was paid \$40,000 to leave because he could not be sacked immediately. Bad teachers often simply perform the "dance of the lemons", being moved from district to district. And schools with large numbers of poor or ethnic-minority students, like Josh's, suffer most from seniority rules because they tend to have higher numbers of new teachers; in bad times, some have had to lay off two-thirds of their teaching staff.

The Students Matter case contends that the disproportionate effect of California's laws on poor or non-white children violates the constitutional right of equal access to education. This will be hard to prove, but Mr Welch felt obliged to go down the legal track after watching union-backed Democrats repeatedly resist attempts to tweak the laws in the legislature.

Last year two of those unions joined the lawsuit to defend the statutes. Teachers deal with controversial issues in the classroom, says Joshua Pechthalt, president of one of them, the California Federation of Teachers, and therefore need special protections to guard against capricious administrators. What if creationists on a school board try to fire teachers who refuse to stop

going on about evolution? But John Deasy, head of the vast Los Angeles Unified School District (and a witness for Students Matter), says parents find California's laws "incomprehensible".

However the judge rules, the case is likely to end up in the state Supreme Court. Mr Deasy, who pleads that he is "not prone to dramatics", compares the case to *Brown v Board of Education*, the Supreme Court decision of 1954 that desegregated America's public schools. And if the plaintiffs are successful, predicts Sandi Jacobs of the National Council on Teaching Quality, an education-reform group, lawsuits or legislative changes in other states should follow. Mr Welch says reformers from outside California have been in touch. ■

## Marine parks

## Blackfish blues

SAN DIEGO

**A bid to ban killer-whale shows in California**

**I**T IS time for the orca (killer whale) show at SeaWorld, a theme park in San Diego, and ten-year-old Ashley Bell, visiting from Texas with her family, is struggling to contain her excitement. "In the wild you see them, but they don't do cool stuff," she notes, a few minutes before being soaked to the skin by a whale performing one of the many tricks its trainer demands of it.

Ashley's parents have not seen "Blackfish", a documentary that takes aim at SeaWorld's treatment of killer whales. But millions of Americans have. The results for SeaWorld have not been pretty; big-name musicians such as Willie Nelson have can-

celled concerts, activists have protested outside SeaWorld's three venues and the group's share price has slumped (though it has partly recovered after strong fourth-quarter visitor numbers).

Worst of all, last week Richard Bloom, a Californian state legislator, lined up with the "Blackfish" cast and crew to unveil a bill that would make it illegal to keep killer whales for entertainment, or to breed them in captivity. The only creatures in California matching that description are the ten at SeaWorld San Diego.

Advocates claim that captive orcas die young, and that conditions at SeaWorld can make them aggressive. Several trainers have been killed by their cetacean charges, including Dawn Brancheau (pictured), a SeaWorld veteran, who, as "Blackfish" documents, was dragged to her death by a whale at the Orlando park in 2010. The federal Occupational Safety and Health Administration has fined SeaWorld and forced orca trainers to stay out of the water during shows. SeaWorld, which is appealing against OSHA's ruling, says its whales live as long as those in the wild, and that keeping them captive brings scientific and educational benefits. Mr Bloom's backers, it adds, are animal-rights extremists.

Bridgette Pirtle, who spent seven years working with killer whales at SeaWorld San Antonio, says "Blackfish" is deeply misleading. But she agrees that SeaWorld has shifted too far towards Las Vegas-style extravaganzas. Not that Ashley minds: "We're not close enough!" she exclaims as, ten yards away, a whale spirals majestically upward from the water. ■



As risky as it looks



# Lexington | The Ben Carson mirage

Why some Republicans think a charismatic brain surgeon can win the White House



**B**ETWEEN now and the presidential primary season, expect to hear more about Ben Carson. Though unknown to many Americans, the retired brain surgeon is a conservative pin-up. He was raised by a black single mother in Detroit, almost flunked out of school and nearly stabbed a teenage rival to death, before finding God, heading to Yale and becoming a paediatric neurosurgeon. He has written several books about his life—one became a TV film (Dr Carson was played by Cuba Gooding junior).

Political celebrity came in 2013 when the doctor used a speech to a National Prayer Breakfast to lecture a stony-faced Barack Obama, sitting a few feet away, about the national debt, those who treat poverty as an excuse for failure and the “horrible” menace of political correctness. A Fox News TV contract followed, and many invitations to address conservative gatherings.

Fans want to draft Dr Carson to run for the presidency in 2016. They call him a citizen-statesman for an anti-politics age. They praise his philanthropy (he runs a scholarship fund for star pupils in poor schools), and his appeal to churchgoing, socially conservative voters of all races. Their idol has said that he might run “if the Lord grabbed me by the collar and made me”. Some are willing to try more earthly interventions. According to official filings, the recently-formed National Draft Ben Carson for President Committee (slogan: “Run Ben Run!”) raised \$1.2m dollars in the last two months of 2013. The committee, which operates without sanction from Dr Carson, boasts that it has raised another \$1.6m since. The committee’s co-founder, Vernon Robinson, makes an unblushing, race-based pitch. Democrats have scooped about 90% of the black vote in presidential elections since 2000, helping to offset a consistent Republican lead among whites. In 2016, argues Mr Robinson, Dr Carson has only to take 17% of the black vote and “Hillary loses every swing state in the country”.

At the Conservative Political Action Conference (CPAC), a three-day shindig attracting big-name Republicans that ended on March 8th, Dr Carson was given a prominent speaking slot. He drew cheers with a talk that delivered partisan attacks (eg, Obamacare is a “massive” government power-grab) in a paediatrician’s mild tones (a favourite Carson insult is to call foes “dummies”). CPAC attracts a young crowd with a libertarian bent: think students in blazers and bow-ties, and pamphlets headed

“How to debate your teacher (and win!)”. Still, Carson fans were excited when their man came third in a presidential straw poll of CPAC-goers, behind Senators Rand Paul and Ted Cruz but beating heavyweights such as Senator Marco Rubio, Governor Chris Christie and Representative Paul Ryan. It was a revealing moment, but not because Dr Carson can win the White House. To be clear, he will not even win the presidential nomination. His rise is interesting because of what it says about Republicans today.

Republicans have flirted before with self-made men from outside politics. Remember Herman Cain, the pizza tycoon whose folksy manner and populist tax plans propelled him to giddy heights in 2011, before sex scandals dragged him down and out of the presidential primaries? Dr Carson is no Herman Cain. Before the 2012 election Republican activists looked at a string of odd-bods and firebrands, casting about for someone, anyone, who thrilled them more than their eventual nominee, Mitt Romney.

This time Republicans seem more sober-minded. A bit unexpectedly, their current mood takes Lexington back to early 2004, and to (cold, snowy) memories of covering New Hampshire’s Democratic presidential primary. Back then it was fractious Democrats who were united by their loathing of the sitting president—seeing George W. Bush as not just wrong-headed but un-American and dangerous. Yet even as Democrats told themselves that they represented America’s true values, they were troubled by doubts about their ability to win overall majorities in a country that was stubbornly hostile to their arguments.

Their first response was to blame their opponents and the media for sowing division and fear (just as Republicans do today). Their second response was to fret about their bench of White House contenders—a line-up of lightweights, shrill partisans and ponderous elder statesmen.

Democrats sought a quick fix: candidates with sterling military records to reassure a nation at war. In the end that meant picking John Kerry, whose war service proved less helpful than hoped. But for a period, notably around New Hampshire’s primary, wild hopes were pinned on Wesley Clark, a retired four-star general with no political experience.

## The myth of the heroic outsider

A decade on, Republicans seem equally unconvinced by their likely presidential contenders, and Dr Carson has the makings of a new Wesley Clark: a successful man, unready for the blowtorch scrutiny of politics. Some of his views might startle his party: for example, he favours stiff tariffs on manufactured imports. And he is already proving thin-skinned. At CPAC, he accused the press of distorting what he had meant when he called Obamacare the worst thing to happen in America “since slavery”, or when he seemed to equate gay-marriage advocates with child-molesters.

Republicans are bullish about November’s mid-term elections, when turnouts are usually low and the electorate skews whiter, older and more conservative. However, the more thoughtful know that the race for the White House in 2016 will be far harder. Swelling ranks of non-white and younger voters have never enjoyed the American dream of rising living standards. Their pessimism poses a test for Republicans whose creed is that hard work leads to success, if government will only get out of the way. Alas, too many conservatives—like Democrats in 2004—are too blinded by dislike of the president to grasp the limits of their own popularity. Hence their desire for quick fixes, as represented by folk like Dr Carson. But quick fixes seldom work. ■



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### Brazil's presidential election

## Winning hearts and likes

SÃO PAULO

### Social media will play a big part in this year's campaign

**I**N JUNE Brazil's elites received a rude introduction to the power of social media. Protests, many convened via Facebook, saw millions take to the streets to air disaffection with politicians. Those same politicians now want to harness social networks for their election campaigns.

Just before Dilma Rousseff was elected president in 2010, 6m Brazilians used Facebook at least once a month. As they gear up for a presidential poll in October, 83m do. Only the United States and India have bigger Facebook populations. One Brazilian in ten tweets; one in five uses Whatsapp—part messaging service, part social network. Cyberspace is seen as a crucial battleground for the election, even before campaigning officially starts on July 6th.

In September, shortly after the protests petered out, Ms Rousseff reactivated her Twitter account, dormant since the 2010 election. She has also joined Instagram and Vine, two image-sharing sites, and revamped her Facebook profile. Last month Ms Rousseff's Workers' Party (PT) held its first workshop for activists on how best to use social networks. It plans 13 more in the coming months.

The opposition is pinning even more hope on social media, in large part because the president is likely to dominate the traditional sort. During the campaign free television time is divvied up using a complex formula which takes into account the

size of electoral alliances—and tends to favour the incumbent. Despite threats by the PT's junior partner to dump Ms Rousseff—and take its airtime with it—most pundits predict the coalition will pull through. That would leave the president with around half of the 25-minute television slots; the other candidates would split the rest.

Small wonder, then, that Ms Rousseff's likeliest rivals have been busy making Facebook friends. Aécio Neves, a senator from Minas Gerais state and leader of the centre-right Party of Brazilian Social Democracy (PSDB), and Eduardo Campos, governor of Pernambuco and head of the centrist Brazilian Socialist Party (PSB), have so far notched up many more "likes" than

### Social status

Brazilian politicians, number of Facebook likes  
March 1st 2014, '000



Source: Socialbakers

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37 Canadian porn: not Canadian enough

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the president (see chart). The most popular of all is Marina Silva, a former environment minister and Mr Campos's probable running mate. All are active on other social networks, too.

They need to be. Mr Neves and Mr Campos in particular are little known outside their home states. One recent poll of voting intentions puts them at 17% and 12%, respectively, to Ms Rousseff's 47%. But things could change rapidly. The president's approval ratings fell sharply, from around 77% to 45%, in the aftermath of the June protests; they have recovered a bit since, but may dip again if more protests erupt during the football World Cup.

At MVL, a digital consultancy in São Paulo that works with Ms Silva, three analysts beaver away, compiling daily reports of her Facebook likes, Twitter mentions and so on. Relevant data are fed into a repository of over 1m e-mails, profiles and handles (usernames) that let Ms Silva reach an estimated 12.5m potential voters, nearly a tenth of the electorate.

It helps to pick the right platform for the right audience. "Trying to talk to everyone everywhere is a waste of time," explains Caio Costa of MVL. In Ms Silva's 2010 presidential bid, Orkut (now much-diminished but with 26m users at the time) was reserved for Ms Silva's fellow evangelicals; Facebook for women and disgruntled PT supporters; Google+ for opinion-makers. That helped propel Ms Silva from a rank outsider to 19.3% of the vote.

Mr Neves and Mr Campos will be hoping to repeat the trick and then some. Youngsters are a big target. Nearly 80% of Brazilians aged 16 (the legal voting age) to 25 use the internet at least once a week, well above the national average of 47%. Nearly half go online every day. At 18 voting becomes obligatory, so the candidates' task is ►►



less to get out the vote than ensure the voters tick the right box, says Alexandre Bourgeois, Mr Neves's social-media wonk.

With that in mind, Mr Bourgeois has dispatched scouts to São Paulo's poor periphery to identify teenage movers-and-shakers, some with hundreds of thousands of Facebook followers. On February 24th the PSB invited one social-media starlet to a party meeting to discuss the lack of public spaces for teenagers to congregate.

The social networks offer counsel on how to "do an Obama", in the words of Emmanuel Evita of Twitter, referring to Barack Obama's astute use of social media in

the 2008 presidential race in the United States. In the past few months the micro-blogging platform and Facebook have both organised tutorials for politicians.

All stress interaction. Reader comments on Mr Campos's Facebook page rarely go unanswered, for example. Mr Neves has room for improvement, however. He seldom responds to his Facebook visitors; his 28,800 followers on Twitter have yet to see a single tweet. Xico Graziano, his head of internet strategy, insists everything is in place: "We are waiting for an opportune moment to engage." A series of video clips designed to bolster his profile, including

one of Mr Neves riding a motorbike along Brazil's coast, will hit YouTube this month.

To have greatest effect, however, the candidates must also do well in the battle of television, watched by 65% of Brazilians every day of their lives. The June protests spread in a roundabout way, notes Juliano Spyer, who studies social-media habits in Bahia, in the country's north-east. The news reached his poor but internet-connected town of 15,000 via television first. Only then was it picked up on "local" social networks, prompting protests. For the opposition to have a chance in October's poll, it has to make every screen count. ■

## Bello | *Dall'ing with a monster*

**In failing to snuff out vigilantism, Mexico is running big risks**

THE rule of law has long been a stranger to the sweltering lowlands known as the Tierra Caliente in the Mexican state of Michoacán. The site of battles over land in the 1940s and 1950s, the area suffered an exodus of migrant workers to California. In the 1970s the drug trade took root there, attracted by the proximity of the port of Lázaro Cárdenas and the remoteness of the federal government in Mexico City. Not content with trafficking methamphetamines, the latest mafia to lord it over the Tierra Caliente, the whimsically named "Knights Templar", established a tight grip over its invertebrate society, co-opting local authorities, extorting protection money and raping women.

That proved too much for the Tierra Caliente's ranchers and lime-growers. A year ago they rebelled, forming "self-defence groups". These vigilantes now control 26 of Michoacán's 113 municipal districts. When earlier this year they threatened to storm Apatzingán, a town of 99,000, President Enrique Peña Nieto dispatched a federal official, Alfredo Castillo, and a squad of federal policemen. Mr Castillo struck agreements with the vigilantes: they will be vetted, in theory at least, and then join an ill-defined "rural defence corps" under the army's aegis.

The vigilantes have attracted sympathy from right and left in Mexico, which see them as legitimate expressions of popular desperation in the face of mafia violence and official neglect. The government seems perplexed. Mr Castillo said he would restore order "in 15 days", but there is no sign that he has a thought-out strategy to deal either with the vigilantes or the lawlessness that spawned them.

That is alarming, especially since the germ of vigilantism has appeared elsewhere in Mexico. Experience in other Latin American countries suggests that Mr



Peña's people risk dallying with a monster. Colombia is the most notorious case. In the 1980s landowners and ranchers, faced with attacks by left-wing guerrillas, organised vigilante groups. These quickly mushroomed into the United Self-Defence Forces of Colombia, a national organisation of over 20,000 paramilitaries who slaughtered tens of thousands of civilians and stole their land while morphing into drug-trafficking outfits. Although most disbanded after a government security build-up, remnants have murdered more than 60 farmers to thwart efforts to restore stolen land to its rightful owners.

On the face of things, Peru's experience of vigilantism was more successful. Villagers in Cajamarca, in the country's northern Andes, formed *rondas campesinas* (a sort of neighbourhood watch) in the 1970s, to tackle cattle-rustling and rural crime. Further south, around Ayacucho and the Apurímac valley, in the 1980s and 1990s the army fostered lightly armed peasant self-defence committees. These helped defeat the Shining Path, a Maoist guerrilla group.

Although the Shining Path has long since faded, the vigilantes are stronger

than ever. In the Apurímac valley, they have turned into well-armed militias of coca growers. In Cajamarca the *rondas* are now led by rural schoolteachers from a far-left party; they battle mining companies and are the real power in the land, says Rubén Vargas, a security consultant.

The common element in all three countries is the weakness of law enforcement in rural areas. That is what tempts governments and security forces to ally themselves with vigilantes. This can bring short-term results against guerrillas or drug-traffickers, but in the long run it makes things worse. As Mauricio Romero, a political scientist at Javeriana University in Bogotá, points out, once vigilantes acquire coercive power, the temptation to use this for private ends—revenge attacks, drug-trafficking or other criminal activities—is simply too great.

The embryo of the monster is already implanted in the Tierra Caliente. The self-defence forces turn out to have members with dubious pasts and the kind of weaponry—assault rifles and improvised armoured cars—that is the trademark of narcos. They have split into warring factions, and are imposing and ejecting mayors.

Mr Peña entered office with one big new idea on security: speedily to set up a rural gendarmerie of at least 40,000 troops, retrained as policemen, from Mexico's unnecessarily large army. By putting bodies on the ground and protecting the politicians and judges, this force would have been tailor-made for Tierra Caliente. But the army and state governors killed the plan. Instead, a much smaller gendarmerie of 5,000 civilian recruits will launch later this year. That seems too little, too late. For all its recent successes against drug kingpins, the political defeat over the gendarmerie may come to haunt Mr Peña and his administration.



## Colombia's congressional election

## Hostile forces

BOGOTÁ

## Opponents of peace talks with the FARC gain a more powerful platform

FOR Juan Manuel Santos, Colombia's president, congressional elections on March 9th were an important signal that "the overwhelming majority of Colombians want peace." Mr Santos, who supports efforts to reach a negotiated settlement with the country's FARC guerrillas after 50 years of conflict, saw his National Unity coalition keep its majority in the lower and upper houses of Congress. In fact, the vote mirrors the torn feelings of many Colombians, who support the talks but are uneasy about the possibility of an amnesty for FARC fighters (see chart).

Reflecting those qualms was the solid showing of a new party created by Álvaro Uribe, a former president who has assailed the government for its talks with the FARC. Mr Uribe practises a personal brand of politics. He feels deeply betrayed by Mr Santos, who served as his defence minister, was elected president largely thanks to his endorsement, and has subsequently reversed many of his policies.

Mr Uribe has claimed that government negotiators are offering the guerrillas impunity for their crimes, which include kidnapping, torture and murder. Mr Uribe's own father was killed in a kidnapping attempt by the FARC. Mr Santos has said impunity has never been on offer, but that negotiators are seeking alternatives to prison as part of a transitional-justice programme.

Mr Santos launched the talks with the FARC in 2012, and is hoping to have a deal by the end of this year. The two sides have already reached draft agreements on rural development and political participation for minority parties. Issues like transitional justice, demobilisation and reintegration of ex-fighters remain. A referendum of some sort will be held to endorse any deal; Congress will then need to adopt detailed

implementing legislation.

This is where Mr Uribe will hope to thwart progress. His right-wing Democratic Centre party won 19 of the upper house's 102 seats, making it the second-largest political force after Mr Santos's U Party, which won 21 seats. That gives Mr Uribe, who now has a Senate seat himself, a more powerful platform to oppose a deal. (He did less well in the lower house.)

Mr Santos is still in a strong position. The governing coalition, which also includes the Liberal and Radical Change parties, maintains solid control over Congress. On votes related to peace talks with the FARC, Mr Santos will probably be able to count on support from the leftist Democratic Pole and Green Alliance, which each

won five seats, and perhaps from the Conservatives. The Democratic Centre's strong showing in the Senate is unlikely to be repeated in the presidential elections to be held in May. Mr Uribe's handpicked candidate, Óscar Iván Zuluaga, has so far failed to rally much support. Barring an upset, Mr Santos will win another term.

Even so, the congressional vote suggests that the president will find the going tougher as the price of peace becomes clearer. That is probably healthy. Most Colombians seem caught between the desire for peace and reluctance to forgive the FARC's terrible crimes. Mr Uribe's intense presence in Congress means there is no chance that a settlement with the FARC would simply be rubber-stamped. ■

## Canadian erotica

## Don't screw with them

OTTAWA

## Pornography falls foul of the regulator for an unusual reason

CANADA'S broadcasting regulator takes its job seriously. One of its tasks is fending off American cultural domination by enforcing a requirement that radio stations and television channels air a minimum proportion of Canadian content. That rule apparently extends to pornography. On March 5th the Canadian Radio-television and Telecommunications Commission (CRTC) advised three adult-entertainment channels that it suspected they were not meeting the minimum requirement of 35% Canadian content, nor providing subtitles for the required 90% of their programmes.

Commentators were quick to suggest ways that AOV Adult Movie Channel, AOV xxx Action Clips and AOV Maleflicxxx could remedy the situation. The printable suggestions range from filming productions in Dildo, Newfoundland or Climax, Saskatchewan, to changing the names of popular Canadian shows such as "The Friendly Giant" and "Hockey Night in Canada" to "The Overly Friendly Giant" and "Hickey Night in Canada". More than a few pointed to the potential for basing new programmes on the Group of Seven, Canadian landscape artists active in the 1920s and 1930s, or on the quip by the late author Pierre Berton that a Canadian was someone "who knows how to make love in a canoe".

That won't satisfy the regulator: the CRTC uses a points system for assessing whether a live-action production is actually Canadian. Having a Canadian director or screenwriter is worth two points, while a Canadian first or second lead performer, director of photography, art director, music composer or picture editor is worth one point. Officials are

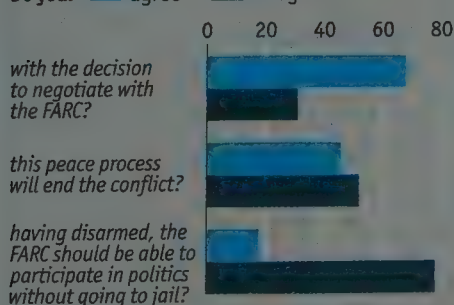


wise to the wheeze of giving a Canadian credit for work performed by a foreigner: they follow the money and scrupulously examine how much individuals are paid. Without looking at the financial statements, it is impossible to say whether "Canadian Quickies" and "Jungle Beaver", two programmes on the March 10th schedule for AOV Movie Channel, satisfy the men in suits at the CRTC.

The people behind Channel Zero, which owns the three adult-entertainment channels, are unlikely to find the attention as funny. They also own a mainstream television station, CHCH Ontario—whose programmes include "Tiny Talent Time", a show in which ambitious tots tap-dance or perform their way to local fame—as well as a number of other niche channels. Channel Zero's main website does not even hint at its backers' other programming. AOV Movie Channel or its legal representatives are scheduled to defend the Canadian content of their output at a hearing on April 28th. Unlike the average CRTC meeting, it is likely to be standing-room only.

## In two minds

Colombians, February 2014, % responding

Do you: ■ agree ■ disagree

Source: Gallup





### Politics in India's states

## The other half

DELHI AND KOLKATA

### Elections in India are merry-go-rounds, not two-horse races

**A**FICKLE lot, revolutionaries. Three years ago Anna Hazare, an ageing Gandhian populist, drew immense crowds to Ramlila Maidan, a big park in Old Delhi. Such was the righteous fervour of the public for his fasts and anti-graft campaign that many talked excitedly of upending national politics and even of changing the constitution. "Anna is India, India is Anna" throngs of white-capped supporters chanted. On March 12th Mr Hazare was due back at his old stamping-ground in Delhi. He cried off at the last moment, after the crowds failed to show up. What began as agitation is ending as farce.

Mr Hazare's travails reflect changes in what might be called the "none of the above" branch of Indian national politics. His ex-deputy turned rival, Arvind Kejriwal, leads an anti-graft Common Man, or Aam Aadmi, Party, which far outshines its former mentor.

But Mr Hazare's embarrassment can also be traced to a more significant feature of Indian political life: the clout of local party bosses. Despite sneering at electoral politics as "full of dirt", and even calling the ordinary Indian dumb for selling his vote for a bottle of liquor or a sari, Mr Hazare could not resist supporting a prominent regional politician for the general election, which begins on April 7th. She is West Bengal's somewhat autocratic chief minister, Mamata Banerjee. The two made an unlikely couple, united supposedly over Mr Hazare's peculiar "17-point agen-

da" to make villages the focus for all national policy. For him, involvement in the electoral fray turned out disastrously. She, too, has been disappointed in her hopes that he would broaden her appeal beyond her home state and into India's north and north-east. But she can shrug it off.

Her wider ambitions are shared by at least half-a-dozen regional satraps whose collective fortunes will influence the election and the next government (see table). Ms Banerjee has a strong grip on West Bengal (population 95m, roughly that of the Philippines) and her Trinamool Congress is parliament's sixth-largest party. Adding even a handful to her tally of 19 national MPs would make her especially powerful.

Nationally, Congress and the main op-

position Bharatiya Janata Party (BJP) retain the greatest clout. Some expect that a two-party system will eventually emerge in India. But it is far from that yet. This election is less a two-horse race than a noisy, at times bewildering, merry-go-round. Voting is staggered in seven phases, to accommodate potentially 815m voters. The result, on May 16th, will be an agglomeration of outcomes from contests in 28 states. In the big ones—Andhra Pradesh, Assam, Bihar, Punjab, Tamil Nadu, Uttar Pradesh, West Bengal—at least one (and sometimes both) of the big parties is a minor force.

Regional parties could grow stronger. In each of the past eight general elections they (plus the Communists) have collectively scooped up half of the total vote. The result is that coalition rule has become the norm. The last time India got a single-party government with a parliamentary majority was a generation ago, in 1984. Many expect Congress to slump to a historic low, with less than 20% of the vote. If that happens, the BJP would gain most, but regional figures would profit, too.

That does not mean they could form a government. It is rare for any local leader to

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### Horses for courses

Main political parties in India

Party	State	Number of MPs in 2009	Prospects
Congress	National	206	Badly led, facing record defeat
Bharatiya Janata Party	National	116	Expects big win, especially in north and west
Samajwadi Party	Uttar Pradesh	23	Flat tyre, rotten rule in UP
Bahujan Samaj Party	Uttar Pradesh	21	Solid Dalit vote, little change
Janata Dal (United)	Bihar	20	Lost direction, sliding popularity
Trinamool Congress	West Bengal	19	Modest blossoming
Dravida Munnetra Kazhagam	Tamil Nadu	18	Sinking in the south
Communist Party of India (Marxist)	West Bengal and Kerala	16	Sick, could be hammered
Biju Janata Dal	Odisha	14	Small but potentially influential
AIADMK	Tamil Nadu	9	Big gains, more national clout

Source: The Economist



► admit to wanting to be prime minister by, for example cobbling together a group of smaller parties. In part that is because building a stable coalition among them is almost impossible. Regional rivalries—for example, in huge Uttar Pradesh between Mulayam Singh Yadav and Mayawati, whose parties are the third- and fourth-biggest nationally—are so bitter that it is easier to form coalitions around the bigger parties instead.

Thus when Nitish Kumar said on March 6th that he had the record to be a national leader, he promptly invited mockery. Mr Kumar, as chief minister of Bihar (population 106m) has a clean, secular reputation and a record of cutting poverty. His claim ought not to be ridiculous. But Narendra Modi, the BJP front-runner, responded during a trip to the state that his former ally had put personal ambition before stable coalition politics (which is a bit rich, say Mr Modi's critics). And Mr Kumar now looks set for a fall at the polls. He lost popularity after ending relations with the BJP last year and is now being abandoned by erstwhile supporters. He is unlikely to match the 20 MPs his party, the Janata Dal (United) party, won in the 2009 election.

Regional leaders mostly end up using national clout to further local goals. At times this is about crude moneymaking. One big party in Tamil Nadu, the Dravida Munnetra Kazhagam, a former coalition ally of Congress, traded the support of its 18 national MPs for control of national ministries—notably telecoms—where a corrupt minister could generate hefty funds for his party. Similarly, figures in Bihar and Uttar Pradesh have supported a national government in exchange for the chance to get their hands on public funds or freedom from prosecution over past theft.

Other figures seek less dodgy pay-offs. Ms Banerjee wants debt relief to help get West Bengal's stagnant economy moving. Mr Kumar has long said his poor Biharis deserve the special official status of being deprived, which would give them more money from central government. Tamil Nadu's chief minister, Jayaram Jayalalitha, will probably turn out to be the biggest regional winner in this election, perhaps tripling her party's tally of nine national MPs. She may demand more devolved power to the states and a tougher policy towards Sri Lanka over its treatment of fellow Tamils.

Yet it is rare to hear anyone in India's campaign talk in detail about new policy, rather than, say, stronger leadership. The electoral power of regional figures is one reason why the new government, like the old, will struggle to impose economic reforms. Recalcitrant state leaders could block changes to the national tax system, say, or prevent opening up to more foreign direct investment. Mr Hazare's electoral future may be dust, but plenty of other spoilers could yet make trouble. ■

## The Malaysia Airlines disappearance

# Confusion reigns

SINGAPORE

**A riddle, wrapped in a mystery, inside a lot of speculation**

IT HAS been a dreadful week of mounting anguish, despair and frustration for the families and friends of the 239 passengers, most of them Chinese, on board Malaysia Airlines flight MH370, missing since the early hours of March 8th. The last contact with the Boeing 777 was as it crossed into Vietnamese airspace over the South China Sea on a scheduled flight from the Malaysian capital, Kuala Lumpur, to Beijing. As *The Economist* went to press, not a trace had been found, though on March 13th China released satellite images taken three days earlier of apparent debris on the sea not far from where the plane disappeared.

At the latest count 42 ships and 39 aircraft from a dozen countries have taken part in one of the most intensive searches ever undertaken, scouring nearly 27,000 square nautical miles (93,000 square kilometres) of the South China Sea and even the Andaman Sea. The failure to find any wreckage or the aeroplane's flight-recorder means there are no clues, as yet, as to what happened. That in itself is unusual. Disappearances in mid-flight are rare because the plane's altitude and speed usually give pilots time to react to problems. The loss of the Malaysian plane is being compared to the Air France Airbus A330 which disappeared in 2009 in mid-flight between Rio de Janeiro and Paris. In that disaster its pilots struggled with mechanical failure.

In the absence of facts, speculation rules. Many at first suspected terrorism, es-

pecially when it emerged that two travellers had booked onto the flight together and had checked in using stolen passports. (The use of stolen travel documents by asylum-seekers or criminals is common in Asia, and Interpol has criticised many authorities' inadequate checking of its database of stolen passports.) But in a hijack, pilots should have time to send out a distress signal. And it soon emerged that the two were Iranians apparently seeking asylum in Europe via Beijing, with no known links to terrorism. Some Chinese privately suspected ethnic-Uighur Muslim terrorists from the restless region of Xinjiang in the west of China. The authorities had blamed extremists from there for a knife attack at a railway station on March 1st in which at least 29 people were killed. Yet Uighur militants have never shown the organisation or ambition for airborne terrorism. And no credible outfit has claimed responsibility.

As for the possibility of sudden structural failure, the Boeing 777 is one of the world's safest planes. Of just three significant accidents and three fatalities in 18 years of service, none was caused by the airframe. The missing aircraft had recently passed a maintenance check.

For the relatives and friends of the missing passengers and 12 crew, it has been harrowing. The Malaysian authorities have released much confusing information. In Beijing families have been holed up at a hotel near the airport. There relatives have expressed growing frustration, despite Chinese officials taking pains from the start to show concern for their nationals. Chinese authorities have publicly hectored their Malaysian counterparts to search harder. They have made much of the resources they are sending to the region. Conflicting statements about the plane's flight path, China's foreign ministry said, were "pretty chaotic". ■



Still nothing



## Malaysian politics and the law

## Long arms

SINGAPORE

The opposition finds itself in the dock for all sorts of reasons

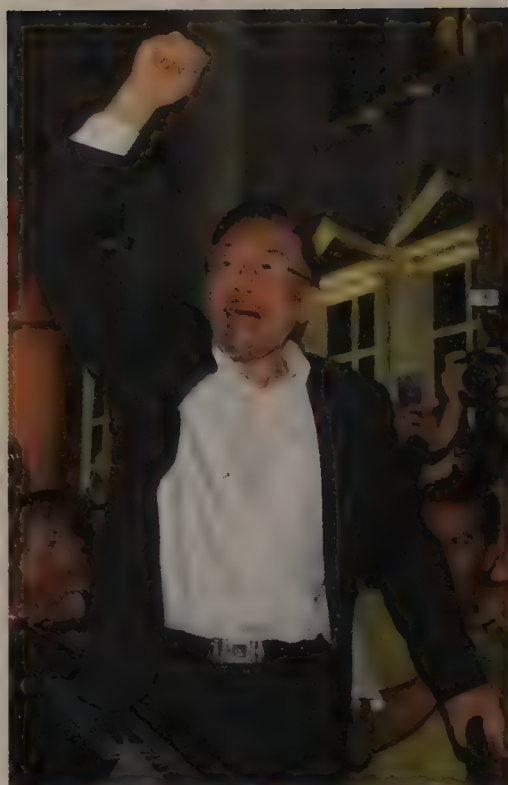
**S**HOCK has turned to anger after two court rulings in the space of a few days in effect suspended, if not finished, the careers of two of Malaysia's most prominent opposition politicians. First, on March 7th, the veteran leader, Anwar Ibrahim, of the opposition's alliance, Pakatan Rakyat (PR), had his acquittal in 2012 on a charge of sodomy overturned by the Court of Appeal; he now faces five years in jail. And then on March 11th Mr Anwar's lawyer, Karpal Singh, also an MP and chairman of one of the three parties that make up PR, was convicted of sedition. He escaped prison, but was fined 4,000 ringgit (\$1,250). The conviction was enough to ensure that by law he has to stand down as an MP.

Both are appealing against the verdicts, which have drawn widespread condemnation, from Malaysia's own lawyers among others. In the case of Mr Karpal, even the UN has joined criticism of the prosecution for using outdated and discredited legislation to secure the conviction. The opposition alleges that the prosecutions amount to a concerted offensive to hobble it after its best-ever result in the general election held last May. Sedition charges are hanging over several other activists and opposition politicians, including Tian Chua, vice-president of Mr Anwar's party.

There was a strong sense of déjà vu about Mr Anwar's conviction. His case has been rumbling on since he was accused in 2008. Known locally as Sodomy 2.0, it followed Mr Anwar's conviction and jailing for the same offence in 1999, a verdict that was overturned in 2004. Since colonial times, sodomy has been illegal in Malaysia, which has a Muslim majority, but prosecutions are rare. Mr Anwar argues that he is a victim of politically motivated charges designed to knock him out of politics.

Certainly, the sodomy cases seem to come at the most inconvenient times. Mr Anwar's latest sentencing came only a few days before he was due to be nominated as a candidate in a critical by-election for an assembly seat in Kajang in the state of Selangor, Malaysia's richest. People in the court were surprised at how quickly the three judges wrapped up the trial and handed down the jail term. Had he won in Kajang, he was expected to become Selangor's chief minister. That would have afforded him a good perch from which to assail the government. Mr Anwar is now disqualified from holding political office.

The legal basis of the conviction of Mr



Anwar has been here before

Karpal has, if anything, caused even more outrage. The lawyer has been found guilty of sedition for a remark he made during a press conference in 2009, when he merely expressed his legal opinion on a political dispute in the state of Perak. He said that the sultan could be legally challenged for his decision to remove the then-incumbent chief minister during a political crisis. This was deemed to be an attack on the sultan. The Sedition Act, dating from 1948, is so outmoded that the government itself promised in 2012 to remove it from the statute book. Yet not only is it still in place, but it is now being used with renewed vigour, belying government claims before the election that it had embarked on a great reform of Malaysia's outdated and oppressive British colonial laws. The office of the UN High Commissioner for Human Rights is one of many international organisations and NGOs to have condemned the continued use of the Sedition Act in general, and its use in this case in particular.

Another group, the Asian Forum for Human Rights and Development, accused the Malaysian government of "an ongoing systematic persecution" of the opposition. The government denies any meddling in judgments reached by a judiciary it insists is independent. And the verdicts may indeed be a mixed blessing for it. PR hopes they will help an often fractious alliance to unite in adversity. Indeed, the public outrage against the convictions may give it an immediate bounce in the Kajang by-election where Mr Anwar's wife, Wan Azizah, a political figure in her own right, will now contest the seat in his stead. This will not be the first time that she has had to take her husband's place in an election, and may not be the last. ■

## Central Asia's autocracies after Crimea

## Russian roulette

BISHKEK

Events in Ukraine point up local rulers' frailties—and they know it

**C**ORROSIVE corruption, submissive courts, poverty lapping at the gates of presidential palaces: the parallels between the regimes of Central Asia's autocrats and that of the fallen Ukrainian president, Viktor Yanukovich, are uncomfortably plain. Events in Ukraine pose two worries for the ageing strongmen of Central Asia.

First, the success of anti-government protests in Kiev, Ukraine's capital, that toppled Mr Yanukovich might serve as inspiration for revolutions in Central Asia. Second, the rulers realise, the response of President Vladimir Putin of Russia in seizing Crimea could be seen as a blueprint for future Russian invasions. All five of the post-Soviet states of Central Asia have their own populations of ethnic Russians. These minorities have long felt more marginalised than those who now enjoy Mr Putin's "protection" in Crimea.

Russia also has a big military presence in Central Asia. Kazakhstan is host to Russia's Baikonur Cosmodrome and several military training facilities. Kyrgyzstan has a Russian air base. And Tajikistan is home to some 7,000 Russian troops—Moscow's largest land force outside the motherland.

In public, most of Central Asia's rulers have said almost nothing about events in Ukraine. Theirs is a delicate balancing act. They wish neither to encourage secessionism at home nor to alienate Russia, with its immense economic leverage. As a political analyst in Tajikistan, Parviz Mullojanov, says, for Russia to promote secessionism is dangerous for Central Asian countries—"They know they could be next". Days after Russian troops occupied Crimea, Uzbekistan expressed anxiety about Ukraine's "sovereignty and territorial integrity". Kazakhstan said it was "deeply concerned" about "unpredictable consequences". Tajikistan called vaguely for an "objective assessment". Kyrgyzstan broke ranks on March 11th, condemning "acts aimed at destabilising" Ukraine.

It did not mention Russia by name. Indeed, the media in these countries hardly cover the crisis at all. Yet to the authorities' mounting alarm, Russia is drafting legislation extending eligibility for citizenship to Russian-speakers anywhere in the former Soviet Union. It would explicitly entitle them to extraterritorial protection.

Mr Putin's vision, to which the Crimean grab gives a nod, is to build a rival to the European Union. His Eurasian Economic Union is intended to be a group of authori- ►►



► tarian former Soviet republics that reject Western liberalism.

Two have already signed up, Belarus and Kazakhstan. Armenia and impoverished Kyrgyzstan, with a pro-Russian government established after a popular revolution in 2010, are negotiating entry. Tajikistan, which is heavily dependent on remittances earned in Russia, has expressed interest. But without first reasserting Russian influence in Ukraine, so important in economic and geopolitical terms, Mr Putin will never be able to realise this grand ambition.

Oil-rich Kazakhstan exemplifies the region's vulnerabilities. A founding member of the customs union, its economy is closely tied to Russia's. On March 5th Mr Putin summoned the Kazakhstani president, Nursultan Nazarbayev, along with the president of Belarus, and told them that the Ukraine crisis risked hurting their economic bloc.

Mr Nazarbayev's country has a large Russian population, concentrated along the country's 6,800-kilometre (4,250-mile) border. Russian nationalists sometimes mutter that these areas belong to them. If Mr Putin were asked to rescue ethnic Russians, might he amputate a bit of Kazakhstan? Mr Nazarbayev is taking no chances. After his visit to Moscow he ordered his army to be built up. But he is walking a fine, even awkward, line, saying on March 10th that he "understands" Mr Putin's need to meddle in Ukraine.

In the poorer parts of Central Asia Mr Putin has even more clout. He could destroy the economies of Kyrgyzstan, Tajikistan and Uzbekistan by requiring visas for migrant workers, whose remittances contribute greatly to their home countries' GNP—almost half in the case of Tajikistan. The interdependence of these economies was evident on the first business day after the appearance of Russian troops in Crimea. Not only did Russian markets and the rouble tumble; the Kyrgyz som plunged by 15% in some shops before recovering a bit.

By contrast, Russia has less influence over gas-rich Turkmenistan. Russia has long been irked by the Turkmen government's treatment of ethnic Russians there. Might they call for protection too? Perhaps, though it looks unlikely that Mr Putin would suddenly resort to military intervention in Central Asia. Among other things, in most of the region he has enough influence without it.

But the case of Crimea has shown that Mr Putin does not need much of a pretext to justify intervention when it suits him. The leaders of Kazakhstan and Uzbekistan are well into their 70s, but have not revealed any plans, if indeed they have them, for their succession. If chaos were to follow their deaths, that might be when Mr Putin takes the view that local Russian-speakers are in need of his protection. ■

## New Zealand's politics

# Flag fall

WELLINGTON

## A date for the general election is set

WHEN he announced September 20th as the date for the next election, New Zealand's prime minister, John Key, highlighted the difficulties of forming the next government. The country has a voting system of proportional representation much like Germany's, and a party leader who may hold the balance of power has a record of prevarication. It could, said Mr Key, be a "very complex environment. And if New Zealand First holds the balance of power, goodness knows how long it will take him to decide what he's going to do."

The "him" in question is Winston Peters of New Zealand First, who after an election in 1996 took eight weeks to decide between throwing in his lot with the centre-right National Party, Mr Key's bunch, or with the Labour Party. In the end he chose National, but he has since served as a minister in both National-led and Labour-led governments. Mr Key has been pushing Mr Peters to declare beforehand which side he will back. A government supported by a minor party or parties looks likely this time, too.

Eight parties sit in New Zealand's unicameral Parliament, three of them in league with the National Party, which in 2011 won 59 seats, two shy of a majority. Since 1996, when the country adopted mixed-member proportional representa-

tion, no party has governed alone.

Although voters appear to be tilting towards a third term for the National Party, its options for political partners are more limited than those of Labour Party, which could work with the Green Party, now hungry for power. By contrast, National's current partners may fare badly in September. Party tacticians are therefore entertaining some strange permutations.

One is to try to ensure that Colin Craig, leader of another party, the Conservatives, gets elected. Mr Craig is a man of striking views. He wants to revoke a law against parents smacking their children and another one legalising same-sex marriage. Not only is he a climate-change sceptic, but, impressively, also a man-on-moon sceptic. Mr Craig's party has little hope of getting the 5% of the vote needed to bring him into Parliament. But National could toss him a voting district. If it did that, however, it would then have to persuade loyal voters to cast their ballot for the Armstrong-denying Mr Craig in the broader interests of the party—no small task.

The political scene is further complicated by Kim Dotcom, an internet entrepreneur convicted in Germany for hacking and in Hong Kong for fraud. He has announced plans to set up a new entity, the Internet Party. Mr Dotcom, once Kim Schmidt, is fighting extradition to the United States, where he is wanted for online piracy. His file-sharing company, Megaupload, was forced to shut down when New Zealand police, acting on an American request, conducted an armed raid on his property. It also turned out that the government's spy agency had been snooping on him. Because Mr Dotcom is a New Zealand resident, the spying was illegal. A physically huge man, he has acquired the stature of an anti-establishment hero. Both the Greens and Labour fear that the Internet Party will take votes from them.

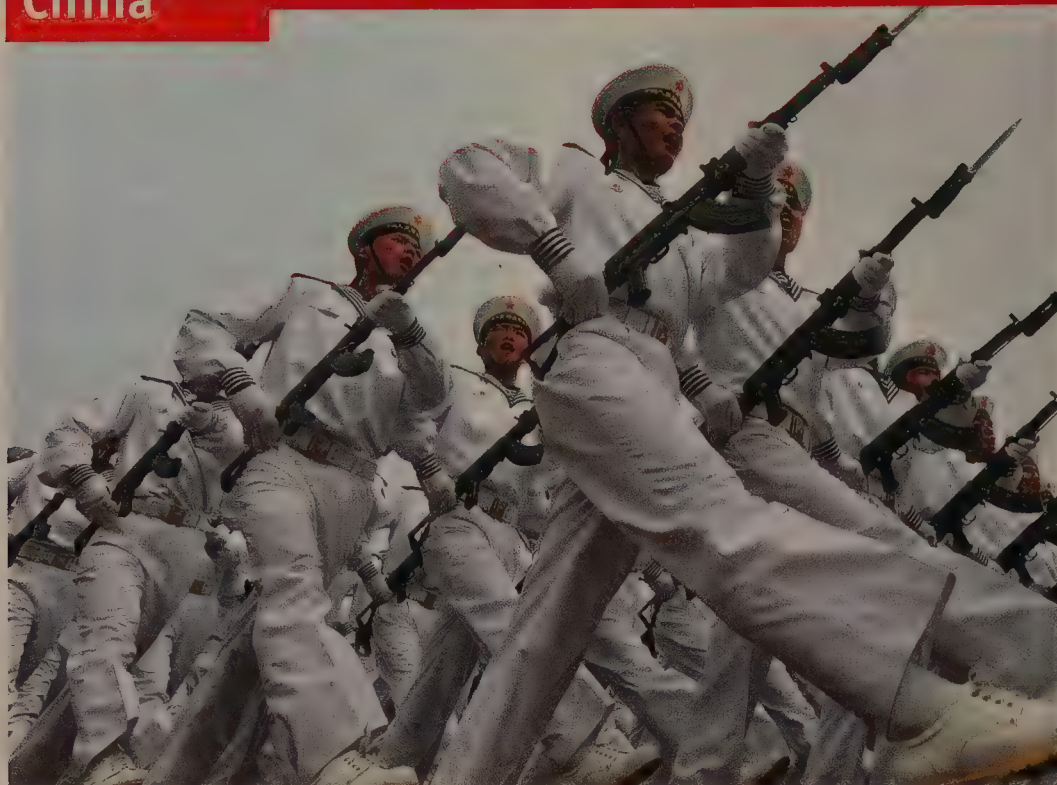
As a prime minister, Mr Key is popular enough, with an easy-going, one-of-us manner. By contrast, David Cunliffe has led Labour for only five months, and voters do not feel they know him yet. Still, Mr Key may be a little vulnerable to the suggestion that he lacks vision. That may explain his promise on March 10th to hold a referendum, if re-elected, on whether to redesign the national flag, including by removing the Union Jack from it. (Labour dismisses the proposal as a diversion.)

National will make its election pitch on its past record—particularly its management of the economy—and on keeping the Greens out of power. Labour will highlight growing inequality, the high price of housing, shortcomings in education and environmental issues. Its chief policies are to introduce a tax on capital gains and raise the pensionable age—sensible policies, perhaps, but hardly likely to be popular with everyone. ■



John Key takes his case to the country





### China's military spending

## At the double

China's fast-growing defence budget worries its neighbours, but not every trend is in its favour

ON THE first day of the annual session of the National People's Congress last week, China announced a defence budget for 2014 of \$132 billion, a generous increase of 12.2% on the year before. That was the official figure, though the real one may be 40% higher still. It set off a flurry of alarm among neighbouring countries. They see the relentless growth in China's military spending—double-digit increases almost every year for the past two decades, and now the biggest in three years—as going hand-in-hand with a determination to settle sovereignty disputes in its “near seas”, that is, the Yellow, East China and South China Seas, on China's own terms.

China's growing military capability inevitably causes concern. As it happened, only a day earlier the Pentagon had published a Quadrennial Defence Review that reflected the probability of flat or declining American defence spending over the next five years. China's military budget is only about a third the size of America's but, if present trends continue, the gap will quickly narrow. Certainly Japan, Vietnam and South Korea are raising their military expenditure in response to the Chinese military build-up, but China will still vastly outspend the combined efforts of all its maritime neighbours. Tensions are high with Japan over the Senkaku Islands (Japan controls the islands but China claims them, calling them the Diaoyu). In light of

China's unilateral declaration in November of an “air defence identification zone” in the East China Sea, and bouts of provocative behaviour in maritime disputes with the Philippines and Vietnam, concerns are growing that China is eager to flex its new military muscle.

A great deal about what China spends on defence remains opaque. Yet that 12.2% headline figure needs to be seen in context. Some argue that with China's economic growth forecast at a steady 7.5% this year, military spending is now decisively outstripping growth in GDP. In fact, adjusted for inflation, the real increase comes down to 8.4%.

What is more, China may be experiencing higher inflation in defence than in the economy as a whole. In the past it has relied for strength on the sheer number of low-paid recruits to its armed forces. Now it must form a more professional and technically adept force. That means paying salaries to compete with those of skilled workers in civilian life, where wages have recently far outstripped inflation. Recruiting and retaining a cadre of capable non-commissioned officers has become a priority for the People's Liberation Army (PLA). The International Institute for Strategic Studies in London thinks that personnel costs absorb a third of the budget in China, compared with about 45% in India and at least 50% in America. A big cost advantage

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that China enjoyed is now being eroded.

Something similar may be happening with the new high-tech military hardware China is deploying. Over the past decade, the country has striven to bring once-obsolete forces up to the point where they would make a regional intervention by America on behalf of an ally (above all, Taiwan) too dangerous to undertake lightly. To that end it has invested heavily in cost-effective technologies that target weaknesses in the platforms on which America depends for projecting power in the Western Pacific, such as strike carrier groups, nearby bases and military satellites. A large part of China's military budget goes on increasingly long-range anti-ship, air-defence and land-attack missiles launched from shore-based batteries, land-based aircraft, guided-missile destroyers, fast patrol boats and submarines.

Naval modernisation has been especially vigorous. The PLA Navy (PLAN) now has around 190 “major combatants”, vessels mostly designed and built in China. In terms of size, it is on course to overtake the American navy by 2020—though it will have at most only a couple of small aircraft-carriers by then, compared with America's 11 much larger ones. The aim is for the PLAN to dominate in contested territorial waters and to be able to push any hostile forces well beyond the “first island chain”—that is, beyond the Philippines, Taiwan and the Japanese archipelago.

However, the more China commits itself to sophisticated weapons systems, the more it dissipates the cost advantages of buying (and sometimes stealing) mature foreign technologies. Christopher Johnson at the Centre for Strategic and International Studies in Washington, DC, says that while China's different bits of hardware are now pretty good, the tricky bit is devel- ►►



oping the software to make them all work together. The country has, for example, so far struggled to develop the targeting infrastructure to turn an anti-ship ballistic missile called the DF-21D into a real threat to American carriers. And while China is testing home-grown stealth fighters, replicating the communication, sensor and information systems that make America's F-35s so potent is another matter.

In one of the biggest military reforms for years, announced in January, China is now attempting to create a Western-style structure of joint command. But that may prove a long and painful undertaking, because Chinese forces suffer from a lack of any recent operational experience. And as China seeks to project power, Andrew Erickson of the US Naval War College and Adam Liff of Harvard's Belfer Centre predict it will find itself getting ever less bang for the buck. Developing the ability to wage

war beyond its "immediate vicinity", they write, would require much bigger increases in military spending and "heavy investment in new platforms, weapons and related systems".

Then there is the tyranny of demography. While China may for some time be able to sustain the current rises in defence spending, before long its military ambitions will be curbed by a slowing economy and the demands of a rapidly ageing society for better pensions and health care. None of which means that neighbours are wrong to be worried. China has relatively weak command and control; it has senior commanders who lack experience of war but who are spoiling to show what their shiny new stuff can do; it chafes at unresolved claims and resents what it sees as encirclement by an American-led alliance. Hubris coupled with insecurity, says Mr Johnson, is a scary mix. ■

## Gays

# "Cures" for homosexuality

SHANGHAI

**The Confucian desire to be a dutiful son or daughter can lead to horrible therapies**

IN 2011 Lin Yan attended the Chuanwei Psychological Counselling Centre in Shenzhen, a southern city. Worried that his parents would not accept his homosexuality, Mr Lin, who was then 24 (and now uses a pseudonym), spent \$1,700 on three months of so-called "conversion therapy". He was shown sexualised images of men and induced to vomit by an injected drug. Other techniques included what he describes as "mental torture". A counsellor would repeat that his family would never forgive him and that being gay was immoral. He endured electric shocks.

Mr Lin's treatment may be abhorrent but it is far from uncommon in China's big cities. The country declassified homosexuality as a mental disorder in 2001. Today urban centres harbour vibrant gay scenes and even hold cautious gay-pride festivals. There are over 100 support groups around the country. But the idea that homosexual-

ity is a curable disease prevails in rural areas and among older generations.

Almost all young people come under pressure to provide an heir, a basic tenet, influenced to a certain extent by Confucianism, that leads some young people to

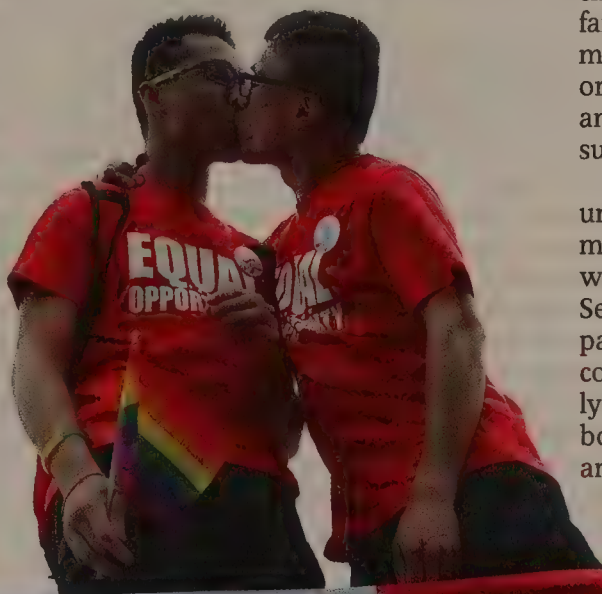
feel their homosexuality must be unfilial. Zhang Beichuan of Qingdao University, in east-central China, reckons that four-fifths of young gay men in China end up marrying women. Those in such predicaments are drawn to clinics which offer counselling to gay people and services including what is often touted as a "cure". Enrolling in such schemes can cost \$5,000 or more—a fortune for most Chinese.

Elsewhere in the world, therapies that purport to turn gay, lesbian or bisexual people into heterosexuals have been discredited. The American Psychiatric Association says undergoing such treatment risks depression, anxiety and self-destructive behaviour. The United Kingdom Council for Psychotherapy calls the practice unethical.

In China, where conversion clinics have operated for decades, there has been no such outcry from medical or official bodies. In December LGBT Rights Advocacy China, a non-profit organisation in Beijing, staged a small protest outside one clinic. The group's members held signs saying: "homosexuality is not an illness". They sent 20 letters to the health bureaus of ten cities with details of clinics offering what they say are illegal services. No one has written back. Clinics need special licences to administer physical treatments such as electric shocks, says Mr Zhang. Few of them have the proper paperwork.

They also lack proper professional standards. A counsellor at the Nanjing Urban Psychological Counselling Centre says he uses hypnosis to uncover the "root cause of the homosexual tendency" in childhood memories. A statement on the clinic's website says that boys born into families with a strong female presence are more likely to be gay. Alternative medicine or electrotherapy is administered to create an aversion. The counsellor claims a 70% success rate.

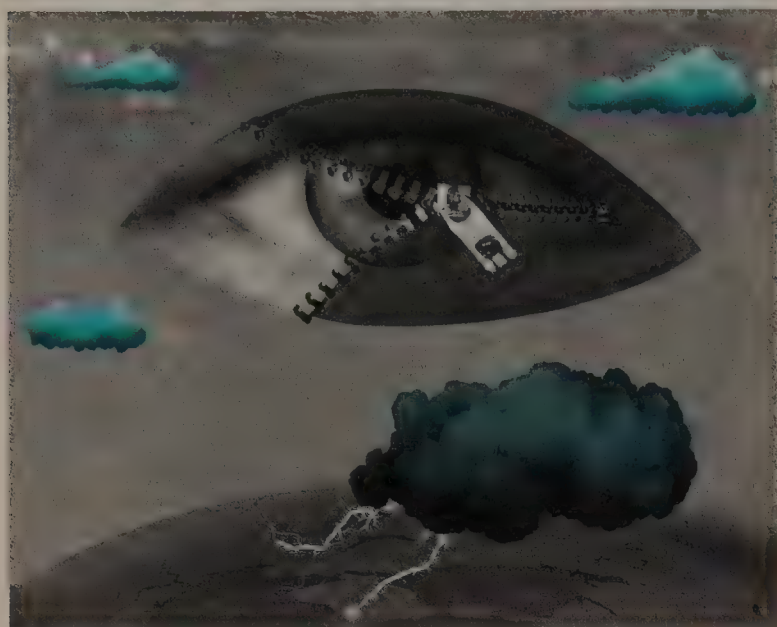
Mr Lin counts himself a fortunate failure. He spent all his savings on his treatment and suffered anxiety, insomnia, weight and hair loss. But he remained gay. Seeing no alternative, he came out to his parents. It has taken his mother months to come to terms with his sexuality. Eventually she joked that if her son was to bring a boyfriend home, he should at least be rich and handsome. ■





# Banyan | Non-interference on the line

The crisis in Ukraine uncovers the hole at the heart of Chinese foreign policy



**I**F THEY have said it once, they've said it a million times. Hardly a press briefing goes by at the foreign ministry in Beijing without a stern reminder of the importance China places on the principle of non-interference in other countries' internal affairs. These days the phrase is trotted out whenever a spokesman is asked about China's stance on Ukraine. Yet, oddly, the spokesman never goes on to criticise Vladimir Putin or Russia, which, in annexing Crimea, has interfered in Ukrainian internal affairs in the crudest way imaginable. Swift to pounce on any alleged hypocrisy in Western foreign policy, China now seems to be upholding double standards of its own. In truth, it always has. But the crisis in Ukraine has exposed the contradictions in China's "principled" diplomacy with unusual starkness.

China has not explicitly taken Russia's side. Rather, it calls on all parties to resolve their differences through dialogue and negotiation. It opposes the sanctions imposed by America and threatened by Europe. And it harps on about the "complexity" of the situation. But America has tried in vain to persuade China to be explicit in condemning Russia. A telephone conversation between Barack Obama and China's president, Xi Jinping, yielded no change in the Chinese script. According to the Chinese press, Mr Xi said China hoped "that all parties concerned would tackle their differences through communication and co-ordination". In the context of Russia's bullying approach, Huang Jing of the Lee Kuan Yew School in Singapore says that China's supposedly neutral stance amounts, in effect, to backing Mr Putin.

Several reasons suggest why that might appear the best option to China's leaders. Russia is a fellow permanent member of the UN Security Council and an important strategic and diplomatic partner. It lines up with China and on the opposing side to America on a range of international issues, such as Iran and Syria. Also, China shares Russia's distaste for the sort of people-power revolution that saw Viktor Yanukovich ousted as Ukraine's president last month after confrontations in the centre of Kiev that to some recalled Beijing's abortive pro-democracy uprising in 1989. As with every such movement since—across eastern Europe, the former Soviet Union and, three years ago, the Middle East—China's leaders have fretted about how their own citizens might react. Sure enough, this time, some users of Sina Weibo, a microblog-

ging service, drew poetical parallels: "In Kiev dawn is nigh; how long can the moon remain full over the Chinese capital?" asked a post by a widely followed writer. The censors later deleted it.

Like Russia, China saw Western meddling behind the unrest that led to Mr Yanukovich's downfall. A commentary published on March 7th by Xinhua, the official news agency, lamented the West's "fiasco" in Ukraine. "The West's strategy for installing a so-called democratic and pro-Western Ukrainian government", it argued, "did not get anywhere at all. On the contrary, they have created a mess they do not have the capacity or wisdom to clean." *Global Times*, a daily owned by the Communist Party, argued that "the world should see Russia's resistance as the dissatisfaction of many countries towards Western powers."

So, though willing enough to criticise supposed Western interference, China's official spokesmen are silent about—or even favourable towards—the Russian variety. Yet it is not as if this approach isolates China. Other Asian countries are also mealy-mouthed over Ukraine. India's national security adviser, Shivshankar Menon, expressed pious hopes for a "satisfactory resolution", and acknowledged the "legitimate Russian and other interests involved". Not only does India have long-standing defence and other ties with Russia, its relations with America are rather tetchy at present. And perhaps India recognises that, like Russia, it too at times likes to throw its weight around in its own near abroad. Even Japan, although it put its name to a strong condemnation of Russia by the G7 group of rich countries, has been less forthright outside that forum, and sought to avoid imposing sanctions. The government of Shinzo Abe has set great store on improving relations with Russia, which is an important energy supplier, as well as the occupier of four islands claimed by Japan.

For China, Russia's annexation of Crimea seems to violate the most fundamental principles of its foreign policy. And it gets worse. The referendum to be held in Crimea on March 16th to legitimise Russia's takeover is a quite appalling notion. Suppose Tibetans or Uighurs in China were to be offered a vote on their international status? Or, slightly less fancifully, the people of Taiwan? (India must have similar qualms, seeing an awkward parallel with the parts of Kashmir claimed by Pakistan that it controls.) Shi Yinhong, an international-relations expert at Renmin University in Beijing, insists China can never accept such a referendum, and says Mr Xi has appealed to Mr Putin to call it off. But, he says, "in no case will China criticise Russia publicly."

## Bully for China

If Mr Shi is right, then China hopes to have its cake and eat it too. It will avoid criticising Russia, yet will not line up explicitly on Russia's side of the argument, so as not to antagonise the West; all the while insisting China's foreign-policy "principles" remain sacrosanct. Among China's neighbours, with many of whom it has territorial disputes, the failure to speak out about Russia's strong-arm tactics in its region suggests that maybe China might favour them in its own. Its foreign minister, Wang Yi, pledges that China will "defend every inch of territory that belongs to us", including, presumably, those inches it does not control. Perhaps China, like Russia, thinks that it gains something from being seen as a bully.

But this approach has costs. China's policy looks inconsistent and opportunistic, damaging its image and soft power. If China really wants the respect due to a global power, it has to assume global responsibilities. It cannot opt out of the role just when things gets awkward. ■





## Kenya

## Trotting ahead

NAIROBI

Kenya is rollicking haphazardly along. But its president, distracted by his indictment by the International Criminal Court, is hamstrung by greedy old-timers

AS THE sun goes down over Nairobi, a new rich set of T-shirt-wearing Kenyans, most of them black and in their 30s, roar with laughter as they quaff whiskies and smoke giant cigars in the Capital Club, the country's latest temple to Mammon. A year's membership, a beautiful waitress proudly purrs, is "a million shillings"—about \$10,000. Your correspondent watches English football on one of four large television screens, alongside a wall of faux-Masai shields, while waiting for his would-be host, the spokesman of President Uhuru Kenyatta. Alas, the spokesman fails to turn up; it is a Saturday evening, but the president is apparently too busy to spare him. Mr Kenyatta, one of Kenya's richest oligarchs, who next month will complete his first year in office, is reportedly fond of similar ritzy watering-holes.

Barely a mile away from the Capital Club, the acrid fumes of charcoal fires in Kibera, a notorious slum, mingle with the stench of sewage running down the muddy alleys where perhaps 800,000 Nairobians live in hugger-mugger squalor. The government, says May Achieng, who runs a church-linked school there, provides "absolutely nothing" in the way of services. Manual workers lucky enough to have a job in the metropolis can earn 200-300 shillings (\$2-3) a day. Domestic and gang violence are rife. Armed police have a station at the entrance to Kibera, but generally keep out of the slum. Visitors are warned to watch out for robbers and "flying toilet"—bags of excrement chucked out of houses at night. Politicians, says Mrs Achieng, turn up only at election time, "or if there is a fire or some kind of disaster".

These two Kenyas exist cheek by jowl,



both of them, in their way, equally dynamic. Half a century after independence from Britain, rich and poor are both locked into a system of patronage and tribe, all competing for advancement, whether for modest jobs in the civil service or for huge bribes to fix contracts for grand infrastructure projects. In the aftermath of a disputed election in 2007, Kibera, whose districts are unofficially divided along tribal lines, was affected as bloodily as anywhere. "One community chopped off the sexual organs of another community," says Mrs Achieng, a Luo, whose leader, Raila Odinga, was reckoned by independent observers to have been cheated of victory. Defeated again last year, in a fairer though still flawed poll, he remains the opposition's head.

If this system is to hold, several requirements must be met in the years to come. The weather, notoriously variable, must be

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clement enough to satisfy the more than half of Kenyans who still live on the land. At the time of independence, in 1963, the countryside barely sustained a population of 8m; that has now swollen to 45m. Law and order must continue more or less to prevail, even while the police, in the words of a security analyst, "are corrupt from top to bottom". Terrorism, especially a recent wave of it perpetrated by recalcitrant Somalis and sundry Islamist extremists, must be contained. The balance of power, already skewed, must not tilt too far in favour of one tribe. And the economy must grow fast enough to spread the largesse of patronage, leaving enough to trickle down even to the masses in the likes of Kibera.

None of this can be assured. And yet, polarised and unequal as Kenya is, its progress punctuated by electoral violence and spasms of ethnic tension, the country has for the most part muddled valiantly ahead.

It remains the economic and political hub of wider east Africa, drawing a quarter of a billion people into its orbit. The stock-and housing markets are booming, prices in parts of Nairobi rising sevenfold since 2009. The economy grew by 5% last year and is likely to do just as well this.

## Full speed somewhere

Diplomats seeking to solve crises in Somalia, South Sudan and the Great Lakes region encompassing Rwanda and eastern Congo are based in Nairobi, which also hosts a plethora of UN regional headquarters. Some international companies are shifting their African headquarters from South Africa to Kenya, the fifth-biggest economy south of the Sahara. Kenya Airways is among the best in Africa.



► The country is also bidding to become a hub of IT. Its M-Pesa mobile-telephonic banking system, from which more than half of Kenya's people benefit, has proved a global model. The country has one of the highest rates of Facebook membership in Africa; more than half a million Kenyans are on Twitter. In the Kilimani suburb of Nairobi, a thriving outfit called the iHub, led by a red-bearded American called Erik Hersman, serves a burgeoning community of innovators, technology investors and researchers, spurred on by Google and Microsoft, among other companies.

Hopes have been rising that discoveries of oil in remote Turkana county, in the north-west, may soon be matched by an offshore gas bonanza. This could give a boost to the much-delayed Lamu Port and Lamu-Southern Sudan-Ethiopia Transport Corridor, known as LAPSET, which would include a railway, fibre-optic cable and pipeline, even if its proposed connection to South Sudan (now in the throes of civil war) and Ethiopia is uncertain.

At last Kenya is seriously trying to improve its dreadful transport links, with help from China. Nairobi's traffic is still in a perpetual jam, but work on a ring road is under way and there are plans to build a new railway line from Mombasa to Nairobi, besides revamping the one that goes on to Uganda. A trans-Africa highway should eventually run from Mombasa through Kenya and Uganda and even across Congo to the Atlantic.

### Danger: exploding light-bulbs

Against this hopeful backdrop, grave worries persist. The attack by Somali extremists on Nairobi's Westgate shopping centre in September, which left at least 69 people dead, has shaken confidence in the police and armed forces, who looted the place afterwards. Gross overreaction by the police against suspected Islamist extremists on the coast, involving extrajudicial killings, has served only to recruit more people to the extremists' cause. Another attack on a prominent target is all too likely—and could drive away foreign investment. Several close shaves since December include a bomb that failed to detonate near the British Airways check-in counter at Nairobi's main airport, ludicrously shrugged off by the interior minister as “an exploding light-bulb”.

This year has witnessed a sharp rise in violent crime, already at epidemic levels. The police are frequently suspected of complicity. Big companies rely on private-security firms, of which there are at least 200 in Nairobi alone. Their staff are far better paid and equipped than the police, though they are not allowed to be armed.

President Kenyatta is considered so rich that he has no need to feather his nest, thanks to the wealth amassed by his family during and after the presidency of his



Kenyatta, dodging the dock

father, Jomo, who ran the show from 1963 until his death in 1978. Mr Kenyatta has spoken out against corruption and docked his own pay by one-fifth. But nobody thinks that graft is being seriously tackled. The railway contracts, awarded following closed bidding, and an extravagant scheme to provide schools with computers are dogged by accusations of graft.

The creation of 47 counties, as a result of a new constitution endorsed in 2010, has added a new layer of corruption and taxation. Moreover, the two houses of parliament, the county governors and the courts (under an admirably independent chief justice, Willy Mutunga) are paralysed by a dispute over whose powers and decisions should prevail.

As for the president, he has been woeefully distracted by his indictment by the International Criminal Court (ICC) at The Hague for allegedly orchestrating violence after the election in early 2008. He has used every conceivable ruse to ensure that his case ends in acquittal or is dropped altogether, an outcome considered increasingly likely. The *Standard*, a Kenyan newspaper, reported on February 24th that

nearly half of the witnesses enlisted by the prosecution had been withdrawn.

Mr Kenyatta has stirred up Kenyans and fellow African leaders against the ICC, badly damaging relations with allies in Europe and America. If the case fizzles out, they may be repaired. But much of Mr Kenyatta's first year in office has been wasted on this issue. In any case, there is a growing perception that he lacks grip. He failed to sack any senior figures in the wake of the Westgate fiasco. Despite his declarations against corruption, he has instigated no investigations over the railway contracts and other dodgy-sounding schemes.

And Kenya remains split along tribal lines (see table). Mr Kenyatta's fellow Kikuyu, the largest and richest group, are perceived by members of other tribes to be “eating”—as the Kenyan metaphor goes—more than their fair share of the cake. William Ruto, the vice-president, who heads the Kalenjin group that ruled the roost under a previous president, Daniel arap Moi, is said to be unhappy. He, too, has been indicted by the ICC. Should the case against the president fail but the one against Mr Ruto drag on, the coalition would wobble and could fall. Mr Kenyatta is said to be lining up Mr Moi's son Gideon as a possible replacement.

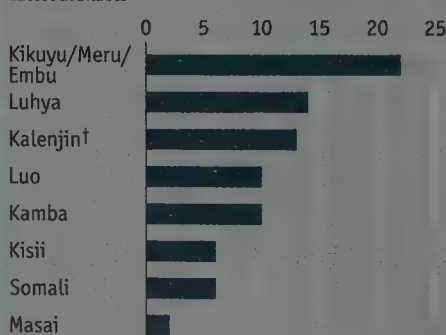
“Kenya is very polarised,” says John Githongo, a veteran anti-corruption campaigner who in 2002 was entrusted with cleaning up government but had soon to flee abroad for his life. “It is a country no longer at ease with itself.” The “coalition of the accused”, as he has mockingly called it, may not last. “The Kalenjin will never trust the Kikuyu,” says a banker friend of Mr Kenyatta. “No matter what the ICC says, Kikuyus in their hearts believe Ruto orchestrated the violence against them. But for the sake of the government's survival, they're not saying it too loudly.”

Campaigners for democracy and openness are worried that Mr Kenyatta and his friends are trying to impede them, much as the government has plainly done its best to hamstring the ICC's investigation. Bills are being put forward in Parliament to curb the buoyant media and to limit foreign funding for NGOs. On March 7th one of Kenya's liveliest anti-establishment campaigners, Boniface Mwangi, was beaten up by police. “There's a danger we are sliding back to the ways of the Moi era,” says another disconsolate pro-democracy activist.

Nonetheless, in its usual inequitable and patchy manner, Kenya is powering ahead. The vitality and reach of social media make it impossible for Mr Kenyatta to acquire the sort of powers Mr Moi exercised in what was then a one-party state. But he is finding it hard to keep Kenya both dynamic and harmonious. A year into office, he still has to prove that he is the right sort of leader. If the ICC case is put to one side, he will have no excuses. ■

### A country divided

Ethnic groups in Kenya\*, % of total population  
Latest available



Source:  
National Bureau  
of Statistics

\*Selected from 40-plus recognised groups  
†A linguistic grouping of about ten tribes,  
including Kipsigis, Nandi and others



## Democratic Republic of Congo

## Green shoots amid the shooting

NAIROBI

**With rebel fighters on the back foot, optimism is growing**

FOR the first time, an armed UN mission is employing drones to keep the peace. In the past three months two Italian-made, snub-nosed craft with the UN logo painted on their sides have been taking off from Goma in eastern Congo to scan rebel-infested hill regions with high-tech cameras. Intelligence is beamed back to units trying to flush out homicidal groups. At 1% of the mission's annual budget, the drones are considered good value. Three more will be launched this month to cover remote areas. The problem now is a lack of manpower to follow up intelligence.

But the number of boots on the ground is growing. The long-standing peacekeeping force in the country was boosted last year by 3,000 troops from various African countries, and was given the mission of actively fighting the rebels. The intervention force, another UN first, is modelled on a surprisingly effective African Union effort in Somalia. Deployment around Goma is almost complete and already having an effect. UN teams relying on drone imagery have dismantled M23, a rebel group that had repeatedly attacked Goma; other mobs are on the defensive, at least for now.

The Congolese army has rejoined the fight alongside the UN after overcoming severe discipline problems. Together they have pushed an originally Ugandan group called the Allied Democratic Forces out of its base in the town of Makoyoya. UN helicopter attacks were followed by a Congolese ground assault, which killed 22 rebels on March 11th. The army says it has destroyed the bases supporting the group's supply lines; it will be overcome "in a few days", a spokesman says.

Optimism is spreading among diplomats after months of worrying that the UN intervention brigade might get bogged down in endless skirmishes. The mood was buoyed by the conviction of a Congolese militia leader at the International Criminal Court in The Hague on March 7th, only the second time the 12-year-old court has succeeded in a prosecution. Germain Katanga was found guilty of ordering the massacre of an entire village in 2003, killing hundreds of non-combatants.

The economic situation is brightening, too. Copper output reached record levels last year, though much of it came from outside the rebel strongholds in eastern Congo, where the population is still crushingly poor and vulnerable. Investors remain wary of American legal constraints on

sourcing minerals from the region around Goma, where warlords have long controlled trade.

With the rebel threat receding, the most urgent problems are the supply of food and electricity. The World Food Programme says a funding gap is forcing it to reduce rations. The prime minister has warned foreign mining firms such as Glencore and Freeport-McMoRan against expanding their operations, because of power shortages.

America's special envoy to Congo, Russ Feingold, visited the country on March 10th to urge measures that could eventually make the calm permanent. The next two steps should be the reform of the army, which has been undermined by corruption and the willy-nilly integration of former rebels, and the creation of a state apparatus that can work under someone other than President Joseph Kabila. Because of term limits, he cannot run in elections in 2016 but is trying anyway. If Congo can realise those aims, the fertile and mineral-rich east of the country could start feeding itself again. As the UN's drones whirr over Goma, that dream is still hard to picture. ■

## Libya's government

## Sailing into troubled waters

CAIRO AND TRIPOLI

**A struggle to control oil exports reflects deeper dysfunction**

"OIL IS our strength", declares a billboard campaign launched by Libya's oil ministry. The advertising is meant to foster national pride in a country still riven with regional and tribal faultlines three years after the ousting of its dictator, Muammar Qaddafi. But in Libya's restless eastern half, sometimes known as Cyrenaica, armed federalists are trying to make

that slogan a political reality.

Since July a group calling itself the Cyrenaica Political Bureau has blockaded Libya's main oil ports, the country's chief source of income. Its initial pretext was to protest against alleged fraud in oil-export accounts, but its ambitions have widened. On March 11th it pulled off a coup, successfully loading and dispatching 234,000 barrels of crude oil—worth about \$30m—aboard a North Korean-flagged tanker, in defiance of the central government.

Authorities in the capital, Tripoli, responded furiously. On March 9th Ali Zeidan, the prime minister, called it an act of piracy and warned that the tanker would be bombed if it tried to leave the port of Es-Sider. Navy craft were mobilised to prevent the ship from departing. When it escaped nonetheless, apparently after a brief skirmish, Libya's acting proto-parliament, the 200-member General National Congress (GNC), voted to dismiss Mr Zeidan. Powerful local militias loyal to the GNC began an advance from Sirte, midway along the Libyan coast, towards the east. The rebels have been given two weeks to give up the oil terminals.

The drama has set the scene for what some analysts fear could be a descent into deeper disorder. The eastern rebels are no match for the better-armed government-aligned forces, and ordinary Cyrenaicans have little appetite for another all-out war, particularly given bitter local rivalries. But there is still a danger that the authorities in Tripoli may overplay their hand to the point of provoking full-scale rebellion in the east.

In moving to oust Mr Zeidan, the GNC asserted itself as Libya's prime authority. But it is divided along factional lines and has few tools to impose its writ. Blaming the ex-premier for the tanker fiasco, it also directed the state prosecutor to charge him with embezzlement. Mr Zeidan still managed to flee to Germany.

In fact, many Libyans view the GNC as dimly as they had come to regard Mr Zeidan. Behind its manoeuvrings many see the hand of powerful Islamist groups, led by the Justice and Construction Party, which is affiliated to the Muslim Brotherhood. Frequently during Mr Zeidan's year-and-a-bit in office, these groups moved to stymie his government's initiatives. The newly installed interim prime minister, Abdullah al-Thinni, a former defence minister, is thought to be close to the Islamists, as is the speaker of the GNC, Nuri Abu Sahmain. Both men are supported by the country's best-armed militias, based in the city of Misrata, whereas Mr Zeidan was backed by armed groups from Zintan, to the southwest of Tripoli.

These rival forces have clashed around Tripoli for several months. In the wake of Mr Zeidan's ejection the city's military council, which co-ordinates Tripoli's va-▶▶



Flying the Cyrenaican flag



rious local militias, issued an order for the withdrawal of “forces occupying strategic positions”. This was seen as a warning to the Zintan group, which controls the capital’s main airport among other places.

The main city in the east, Benghazi, has meanwhile become increasingly insecure. Near-daily bombings and assassinations appear to be aimed at undermining any authority, to the advantage of jihadist factions that seek to impose Islamic law. With oil exports slumping from 1.4m barrels a day to around 235,000, the central government has plundered the country’s foreign reserves to keep salaries flowing. It is not clear how long it can afford to continue.

These ingredients make a combustible mixture. Fighting in the east could provoke

a wider insurrection there; and deepening disorder in Tripoli could tempt other local authorities, especially those in the deep south, to declare their autonomy. Should a Brotherhood-friendly government emerge in Tripoli, neighbouring countries such as Egypt and Algeria would become twitchy.

Libya may yet drag itself back from the brink. Rather than attempting to hold their ground at Sirte, the Cyrenaican rebels quietly pulled back to the old border line that demarcates the former federal region, which was abolished in 1963. Optimists point out that Mr Zeidan was ousted by an elected body, and left without a shot fired. GNC members have promised fresh national elections by midsummer. But just now that looks awfully distant. ■

dent Bashar Assad needs to compromise. His regime needed the deal in Barzeh to ensure that government workers in Aish al-Warwar could get to Damascus’s city centre. Elsewhere what has been presented as a deal has in practice meant the surrender of an opposition area after it has been starved and bombed into submission.

Ceasefires can easily go awry. The government’s demand that its version of the national flag should replace rebel versions in Yabrud, a town on the border with Lebanon, was one reason why an attempted agreement there was recently aborted. ISIS, with its contingents of foreign fighters disconnected from local people, is often a spoiler. In some cases negotiators—usually local businessmen or religious figures—have been kidnapped. Beneficiaries of the war economy, from traders to warlords, have also been known to ruin potential deals despite local backing for them.

Nor are negotiations free of the international differences that helped stymie last month’s fruitless peace talks in Geneva. When a delegation of negotiators from a divided city went to Damascus for talks at the presidential palace, it was told to call in at the embassy of Iran, Mr Assad’s main foreign ally. Iranian-funded groups sometimes negotiate with those financed by Saudi Arabia—which is backing the rebels—over the fate of some Syrian village. Last month, as the regime called for civilians to evacuate Homs in peace, the Iranian-backed National Defence Forces, a paramilitary outfit, still tried to attack those who were leaving.

But international mediators can help, too. A prisoner exchange on March 9th, in which an Islamist faction surrendered 13 kidnapped nuns in exchange for dozens of women held hostage by the government; was secured with the help of a Qatari intelligence officer. ■

### Ceasefires in Syria

## Oases and mirages

CAIRO

Local truces could lessen Syrian suffering, but it is hard to make them stick

SYRIA’S civil war enters its third year in a grisly stalemate. Neither the embattled regime nor its fractious enemies are able to advance much on the ground. Nor are the fighters or their international backers exhausted enough to settle for a comprehensive peace. But there is a small chink of light. In some districts, the protagonists have agreed to local ceasefires. Some last only long enough for food and medical aid to be brought in to alleviate the suffering; others prove more durable.

Agreements have recently been sought in flashpoints around Damascus, the capital, and Syria’s third city, Homs. The most successful was announced on January 5th in Barzeh, a turbulent suburb of Damascus. Unusually, local rebel fighters were allowed to keep their arms as well as their control of the area. They agreed to open roads to people from Aish al-Warwar, a nearby loyalist district, in return for an end to a siege and a resumption of some government services. Rebels and soldiers now man checkpoints jointly.

This is a rare success, says Rim Turkmani, a Syrian activist and research fellow at the London School of Economics, who is studying the factors that make or break local deals. A recent agreement to let food into Yarmouk, a once-thriving Palestinian camp in Damascus that has endured a siege by government forces since last July, resulted in just a few aid packages going in, leaving most of the estimated 20,000 surviving residents hungry and angry. Soon afterwards, fighting broke out again. In Homs a temporary ceasefire enabled families to leave a rebel-held area, but locals

say that men who were held by the regime to be “processed” are still in detention. In other cases, talks broke down before a ceasefire could be agreed on.

The pressure on rebels to negotiate often mounts when supplies of food and fuel run short for civilians in areas they control; Amnesty International recently accused the government of using hunger as a weapon of war. Even the Islamic State of Iraq and Greater Syria (ISIS), an extreme jihadist group, has been brought into negotiations over the supply of electricity in Aleppo, in the north-west.

But deals really stick only when Presi-



Bearding the lion in his den





## Russia and Ukraine

## The home front

MOSCOW

**The Kremlin's belligerence in Ukraine will ultimately weaken Russia**

**N**OBODY, apart from Vladimir Putin, Russia's president, knows what awaits Ukraine. If the Kremlin stops at the annexation of Crimea, the rest of Ukraine may survive and reform itself into a modern European state. If, on the other hand, Mr Putin moves deeper into Ukraine, the country may descend into a bloody partisan war. Russian troops were reported to be massing on the eastern border of Ukraine as *The Economist* went to press.

Worryingly, the Kremlin justifies its actions in Crimea by citing a need to protect the Russian-speaking population, which would equally justify a military operation in the south and east of the country. Mr Putin sees himself as not just the president of Russia, but as a protector of the "Russian World", an ill-defined conglomerate. His idea of gathering historic Russian lands into his own fief has pushed Kiev, the cradle of Russian cities, farther away from Moscow than it has ever been.

Yet it is not just Ukraine that faces a threat from the Kremlin. So does Russia itself. And whereas Ukraine may yet shake off the Kremlin's grip, the chances of Russia's becoming a modern, civilised country, open to the world and respectful of its citizens, are diminishing with every outburst of war hysteria on Russian television.

This marks a new period in Russia's post-Soviet history, rather as the Soviet in-

vasion of Czechoslovakia in 1968 marked a new chapter in the Soviet empire's post-Stalinist history. The tanks in Prague crushed not only Czech reformers, but also hopes among Russians of building a more humane socialism at home. Similarly, Russia's escapade in Ukraine entrenches its own authoritarian, oil-dependent and fundamentally weak state.

The Ukrainian revolution last month posed an existential threat to Mr Putin's paternalistic and kleptocratic system by prompting the question: if Ukraine can cut itself off from the Soviet legacy, why can't Russia? As one person close to the Kremlin says, the most frequent comment echoing around those walls during the protests on Maidan was: "Do we want this to happen in Moscow?"

In preparation for Russia's actions in Ukraine, the Kremlin cleared the last pockets of independent media. RIA Novosti, a state-news agency, which sheltered loyal but liberal-minded journalists, was purged and turned into a blunt propaganda instrument. TV Rain, a private television channel which provided the most objective coverage of the Ukrainian protests, was taken off the air by the main cable providers, acting on the Kremlin's instructions. The internet, once free of Kremlin control, has been restricted by new, vague laws. On March 12th the editor of one of the most popular news

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sites, Lenta.ru, was replaced with a pro-Kremlin appointee. Its journalists threatened to resign in protest: "The trouble is not that we won't have anywhere to work, but that you won't have anything to read." Dmitry Peskov, a spokesman for Mr Putin, labelled anyone objecting to the Kremlin's actions part of a "nano-sized fifth column".

A patriotic frenzy whipped up by television muffles any dissent. Television executives who were trained as part of their Soviet-era military services in "special propaganda", which sought to "demoralise the enemy army and establish control over the occupied territory", created a virtual enemy in Crimea—fascist revolutionaries whose overthrow of the legitimate government justified the movement of real troops.

People close to Mr Putin say he had been harbouring the idea of taking Crimea since the war in 2008 with Georgia, which resulted in the de facto occupation of Abkhazia and South Ossetia, its two break-away republics. Yet the context is different. Kirill Rogov, a political columnist, argues that the war in Georgia served as a patriotic accompaniment to Russia's economic resurgence. Ukraine serves as its substitute.

Russia's economic stagnation has exposed the limits of Mr Putin's political and economic model, which relied on rising oil revenues and allowed him to buy the support of the elite and the acquiescence of the population at large. Real disposable incomes, which rose by 12% in 2007, on the eve of the war with Georgia, are forecast to rise by 3% this year. The Kremlin faced a choice between political liberalisation and mobilisation of the country by the means of war and repression. Mr Putin has chosen the latter.

Confrontation with the West is one of ►►



▶ the main goals of Mr Putin's operations. Any sanctions imposed will allow him to blame Russia's economic downturn on the West, though that may not placate the ruling class, with its cash stashed abroad in property and bank accounts.

Mr Putin has tried to reduce the elite's vulnerability to sanctions by warning it to repatriate its money and even passing a law banning the ownership of foreign bank accounts by Russian officials. Whether or not that has had any impact, his actions in Ukraine are bound to damage the wider Russian economy. They will accelerate capital flight, raise the cost of borrowing and restrict new investment. This could lead to a fall in the value of the currency and in living standards.

Although Russian sabre-rattling has given Mr Putin's ratings a short-term boost, it is unlikely to arrest the growing discontent

with his policies for long. As Andrei Zorin at Oxford University notes, the militaristic euphoria was even stronger 100 years ago when the tsar dragged Russia into the first world war. Two years later, that enthusiasm had vanished and the Russian empire started to crumble.

As part of the mobilisation the Kremlin organised a Soviet-style letter, endorsing Mr Putin's policies, from famous cultural figures such as Valery Gergiev, a celebrated conductor. But another letter, sent to Mr Putin by a journalist from Vologda, the heart of Russia, provides a clue as to how some ordinary Russians feel. "Could you also send the troops to the Vologda region?" it said. "We are all Russian-speakers here and our rights are really infringed upon: our sick cannot get medication and care, our education is getting worse every year, our agriculture is dead." ■

be protecting the peninsula from the fascists in Kiev. These men are more aggressive than the trained Russian soldiers. Manning self-made checkpoints, they harass journalists and attack those who favour remaining in Ukraine.

Every few days local militias, often working with Russian soldiers, threaten to storm one or the other Ukrainian military base. These are "psychological operations", says a Ukrainian military official in Crimea, designed to "escalate the situation"—either to demoralise Ukrainian troops into giving up, or to push them to react with force, which could trigger wider Russian military intervention.

All sides have quickly radicalised. Among ethnic Russians in Crimea, a long-standing sense of grievance directed at Kiev has been whipped to a furious pitch by a propaganda onslaught that paints the activists on Maidan in Kiev as extreme and resolutely anti-Russian. There is a grain of truth to such descriptions, but in Crimea it has been inflated to an absurd degree. One Russian man hoping to join a self-defence unit says he cares little for Viktor Yanukovich, Ukraine's deposed president, but fears that radicals from Kiev are on their way to wreak violence across Crimea. "How much longer can we stand it?" he asks, before heading off to enlist for guarding a Ukrainian base.

Not everyone in Crimea is waiting with joy for the union with Russia. Those with perhaps most to fear are the Tatars, Turkic Muslims who make up 12% of the population. Whereas the Russians in Crimea remember the suffering and heroism of the peninsula's inhabitants during the second world war, the Tatars keep alive the memory of their deportation by Stalin in 1944. History makes them distrustful of Russia and its intentions.

Riza Nuradinov, a 65-year-old Tatar, grew up in exile in Uzbekistan, where memories of the Stalin-era deportation were passed along like "mother's milk", he says. Local Tatar communities are forming their own self-defence groups and are bracing themselves for attacks on their businesses and homes. Vladimir Putin, the Russian president, appears to be betting that he can calm Crimea's Tatars with jobs, offers of security and money. Yet he appears unable to control fully the members of the irregular militias.

The new government in Kiev, like the West, says it will not recognise the referendum. But it has little capacity or appetite to stop it—Ukrainian tanks are unlikely to move on Crimea. That means Mr Putin will probably win the territorial prize he seeks. Yet it is not clear what exactly he is winning. His poll numbers have so far been boosted by his military adventurism, but they could fall again if the cost—in money or blood—of acquiring Crimea rises after the referendum. ■



## Crimea's referendum

# A predictable outcome

SIMFEROPOL

Crimeans are voting on whether to join Russia

THE referendum to decide whether Crimea will join Russia will be held on March 16th, but around much of Crimea preparations to join the large neighbour to the east are already under way. Russian flags hang from government-administration buildings in the regional capital, Simferopol; municipal billboards urge residents to go to the polls with the slogan "Together with Russia". The vote now seems a mere formality: on top of a fairly high level of support for Russia before the crisis, an unceasing propaganda campaign

and a military occupation mean that Moscow should have little problem getting the result it wants.

The nature of that military occupation has changed over the past week, blurring into something more anarchic and potentially more dangerous. Russian soldiers without markings, who streamed into Crimea after March 1st, have largely faded from sight, though they remain on the ground and in control. They have been replaced on the streets by ragtag self-formed militias, bands of local men who claim to



## Bavaria's CSU

# The secret of King Horst's success

MUNICH

The Bavarian premier makes the most of his regional party's national role

**B**URLY, jovial and sonorously rolling his RS, Horst Seehofer, the boss of the Christian Social Union (CSU), embodies Bavarian populism and bravado. The CSU is a party that only exists in Bavaria, one of the richest, most successful and most distinctive of Germany's 16 states. It has governed there for almost all of post-war history, often with an absolute majority, as now with "King Horst" as state premier. But its power extends deep into national politics, making it often more volatile and always colourful.

Mr Seehofer is best observed working the crowd in a bustling beer tent, all ears for the popular mood, building up his "coalition with citizens". With sly innuendo against the bureaucrats of Brussels or Berlin, against immigrants milking the welfare system or foreign drivers clogging motorways, he can excite an audience even without any clear ideology or policies.

With a model railway taking up his basement, his hobbies and tastes are reassuringly ordinary. Even revelations about an illegitimate daughter have not hurt him, or his party's advocacy of family values, in a state that lives by a relaxed Catholic brand of live-and-let-live. *A Hund is er scho'* (Sure, he's a dog, in Bavarian dialect) is a phrase often applied to him. It expresses the macho cocktail of frisson and admiration that is necessary for success in Bavaria, says Werner Weidenfeld, the director of the Centre for Applied Policy Research in

Munich. And the CSU is indeed, he says, "the most successful party in Germany".

Among regional parties it is unique in the world. Scots, Catalans and Québécois may have parties representing them, but none has the CSU's combination of regional and national power. That is thanks to an arrangement with its sister party, the Christian Democratic Union (CDU), led by Angela Merkel, Germany's chancellor. When the two parties emerged in the aftermath of the second world war, they agreed that the CDU would never enter Bavaria, nor the CSU the other German states, but that both would form one group in the national parliament. The CSU has never fielded the chancellor (though it tried in 1980 and 2002). But its strong election results in Bavaria have buttressed every CDU chancellor from Konrad Adenauer to Mrs Merkel.

Both parties are "Christian unions" because they united Catholic and Protestant parties that dated back to the Weimar Republic. They absorbed liberals and conservatives as well. The CSU also emphasises the "s" in its name, for "social", which in Germany stands for workers' interests, class solidarity and some redistribution. And it swallowed most of what would have become a Bavarian-independence party. By integrating so many different parts, it has prevented the fragmentation and extremism that were the bane of the Weimar Republic, says Mr Weidenfeld.

The CSU owes its success to the long transformation of Bavaria from agricultural backwater to industrial and high-tech powerhouse without loss of local identity. The proud term for this combination is "laptops and lederhosen". And in every campaign—municipal elections are on March 16th—the CSU mobilises voters with the spicy, cheeky language of Bavarian patriotism. Thus half of Mr Seehofer's act is to cause controversies in Berlin or Brussels so

that his Bavarians know he is looking out for them. The other half is to drop those controversies quickly to ensure no lasting harm to Mrs Merkel or the country.

To his detractors that is irresponsible flip-flopping. For example, Mr Seehofer is in favour of Germany's (popular) plan to shift from nuclear and fossil-fuel energy to renewable sources. But he simultaneously panders to those Bavarians who oppose new and ugly power lines to bring electricity into the state. "He gets them up the tree but how do you get those folks down again?" complains Margarete Bause, the leader of the Green party in Bavaria's state parliament. "With his populism he endangers the entire energy transition."

Neither Mr Seehofer nor his CSU is as dangerous as that, says Heinrich Oberreuter at the University of Passau. That is because the CSU knows two things: first, that the CDU would not govern Germany so often without Bavaria's CSU; and second, that the CSU also needs Mrs Merkel's popularity to do well in Bavaria. So the CSU must make Mrs Merkel's life difficult; just not so difficult that she fails. ■

## French politics

## A scandal tainting both sides

PARIS

Nicolas Sarkozy's political comeback is endangered

**E**VERY now and then, a politico-judicial tangle emerges in France that draws in politicians from across the party divide. Such seems to be the case with the unprecedented wiretapping affair concerning Nicolas Sarkozy, the former centre-right president. On March 7th *Le Monde*, a newspaper, revealed that investigating judges started to bug Mr Sarkozy's telephone last year. Having denied any knowledge of this, the Socialist government of François Hollande, the current president, now admits that it was in fact recently informed.

This is the first time that a former president of the Fifth Republic has had his phone tapped in connection with a criminal case. Investigating judges, who enjoy sweeping powers under French law, began to bug Mr Sarkozy's phone in September 2013. At first, this was part of an investigation into alleged illegal financing by the former Libyan regime of his election campaign in 2007. While listening in, according to *Le Monde*, they were alerted to a different matter: an alleged attempt to exchange inside information from a high-ranking prosecutor about ongoing judicial investigations in return for securing him a plum job in Monaco.

Mr Sarkozy's lawyer, Thierry Herzog, ►►



Seehofer (right) gets down to some serious coalition-building



whose conversations with his client were recorded, has called the wiretapping “monstrous”, breaking attorney-client privilege. He denied any attempt to exchange favours for information, and called the allegations “absurd”. The whole case, he said, was clearly “political”. Mr Sarkozy’s immunity from prosecution expired upon leaving office in 2012, and since then he has been linked to a number of legal cases. In one, centred on alleged illegal party-financing by a billionaire heiress, he was detained for hours by investigating judges, who in the end dropped the case against him. This latest affair emerged shortly before elections to local councils this month and to the European Parliament in May—and just as Mr Sarkozy had begun a return to public life, with an eye to a possible comeback in the presidential election in 2017.

The wiretapping revelations came days after it emerged that one of Mr Sarkozy’s former presidential advisers, Patrick Buisson, had also been secretly taping hundreds of hours of conversations. A former editor of a far-right newspaper, Mr Buisson would hide a recording device in his pocket and used the tapes, his lawyer said, as an *aide mémoire*. So far, the published transcripts range from the banal to the politically crushing. In one, Mr Sarkozy jokes to his wife, Carla Bruni, that he “became rich by getting married”. In another, he calls the idea of appointing Jean-Louis Borloo, considered at the time a possible prime minister, “grotesque”. But further revelations could be more compromising. Mr Sarkozy’s lawyer is now seeking an injunction to secure the removal of transcripts published online.

The Buisson bugging affair, at least so far, is merely an embarrassment—although it does raise questions about Mr Sarkozy’s judgment in hiring the adviser. The fallout from the wiretapping case, however, could be wider. Not only is the judicial investigation likely to drag on for months, throwing uncertainty over Mr Sarkozy’s comeback, it also harms the government. At first, ministers denied all knowledge of the wiretap. Christiane Taubira, the justice minister, claimed that she had not been informed. The interior minister insisted that he learned about it in the press.

On March 11th, however, shortly before *Le Canard Enchaîné*, a satirical newspaper, published allegations that the government did in fact know, Jean-Marc Ayrault, the prime minister, conceded that the government was told about the wiretapping of Mr Sarkozy’s phone on February 26th, but not about the content. The next day, the Paris public prosecutor said that on that date he had indeed passed details of the case to the justice ministry, which has ultimate authority over public prosecutors.

The upshot is that the government now looks incompetent at best, and at worst un-

truthful—to the delight of the political right. Jean-François Copé, head of the UMP party, accused Ms Taubira of having “lied” (which she denies) and called for her resignation. His friends have denounced a conspiracy against Mr Sarkozy. In the meantime, one politician is keeping relatively quiet: Marine Le Pen. As claims and counter-claims fly, the most likely electoral beneficiary of all this is her party, the populist National Front. ■

## Poland’s economy

# Can do even better

## The OECD recommends more reform

“EVERYTHING depends on what happens in the east,” said Janusz Piechocinski, Poland’s economy minister, in a recent interview on Polish radio. Around one-fifth of Poland’s exports go to neighbouring Ukraine and Russia, thousands of jobs depend on trade with the east and Poland still gets a lot of its oil and some of its gas from Russia. No wonder then that, with an explosive stand-off between Russia and Ukraine, Mr Piechocinski is no longer certain that Poland’s GDP will increase by up to 3.2% and its exports by 6% this year, as he forecast only a few weeks ago.

Yet Mr Piechocinski has more on his plate than geopolitics. Poland’s GDP has grown on average by 4% since 2004, when the country joined the European Union (EU). As the EU’s sixth-largest economy, Poland at first thrived even during the financial crisis, but the economy has slowed abruptly in the past couple of years. It is a sign that the government of Donald Tusk needs to change course.

In its latest report on Poland, launched on March 10th in Warsaw, the OECD, an intergovernmental think-tank, said that more reforms are needed to get the economy growing fast again. The country ought

to raise productivity by liberalising the labour market, privatising state-owned enterprises, cutting red tape and making agriculture competitive.

Despite progress, participation in the labour market remains limited. This problem will deepen as the working-age population shrinks. Poland’s birth rate is low and emigration, especially of the young and skilled, remains high. The OECD recommends that men and women should retire at the same age and that Poland should raise the pension age to 67 by 2030 rather than by 2040, as planned. It could boost female employment by improving child care and care for the elderly. The jobseekers’ allowance needs to become more conditional. A law that prevents firms laying off an employee in the last four years before retirement should go, as it discourages firms from hiring older people.

Poland is in dire need of better transport infrastructure. That should make the labour market more flexible, as workers would find it easier to commute. The rental market for housing needs a boost, so that people from areas with high unemployment can more easily move to find work.

State ownership remains a vestige of the communist regime, says Peter Jarrett, one of the authors of the OECD report. Several hundred largish companies are still in the hands of the state; the government has a tendency to declare them “strategic” when they are, in fact, just big (see chart). Poland’s largest bank, PKO Bank Polski, is state-owned as is KGHM Polska Miedź, a mining firm, several chemical producers, as well as LOT, the national airline.

Public procurement works poorly, partly because of Poland’s history of corruption. Civil servants have become so fearful of being thought biased that in a public tender they almost always choose the lowest bidder. “That works for an order of 100,000 pencils, but not for motorways, where they should opt for the best value for money,” says Mr Jarrett.

Bureaucracy remains a scourge—which explains why Poland ranks 45th, behind countries such as Colombia and Montenegro, in the World Bank’s ease-of-doing-business index. Agriculture is subsidised and hence too big. KRUS, the farmers’ national-insurance system, is a burden on the state and needs reform, but this will disgruntle PSL, the coalition partner of Civic Platform, the party of the prime minister. As with other unpopular reforms, it is unlikely to happen before elections next year.

Yet Mr Tusk is taking a risk if he waits too long to bring about change. The economy’s fundamentals are still good, but Poland’s poor demography will soon bite. Even today some employers cannot find the workers they are looking for. Before the financial crisis struck, Ireland managed to lure back talented émigrés. Poland should be aiming to do the same. ■

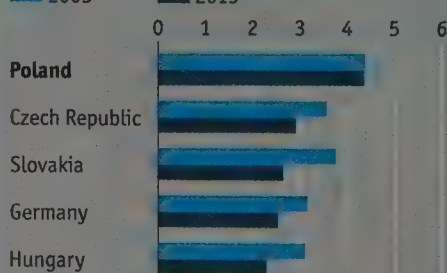
## Still a heavy hand

Public ownership\*

0=least restrictive, 6=most restrictive

2003

2013



\*Scope of public ownership across 30 sectors, in network industries and shares in enterprises

Source: OECD



# Charlemagne | Election or selection?

The flawed attempt to make up the EU's democratic deficit



“IN BRUSSELS, no one can hear you scream.” Such is the cynical one-liner from Borgen, a Danish political television series, in which the prime minister seeks to dispose of uncomfortable colleagues by appointing them to the European Commission. Brussels is indeed filled with second-rate and superannuated politicians whose doings go unnoticed back home. But the parlour game of European Union appointments that will be played in the coming months, when the big Brussels jobs come up for renewal, will matter more than usual.

The EU now intrudes deeply into domestic politics as a result of the economic crisis. This is especially true of euro-zone countries, though even Britain, a euro “out”, is torn over whether to stay in the EU. Moreover, the European election in May is likely to see the rise of anti-European parties of both left and right that will exploit Brussels to make an assault on domestic politics. Another factor is that the European election will for the first time see a dubious experiment with what Germans call *Spitzenkandidaten*, or “leading candidates”.

The theory is that the president of the European Commission should no longer be selected by leaders in murky back-room deals. Instead he or she should be indirectly elected: each of the main political “families” in the European Parliament selects a *Spitzenkandidat*, and the champion of the biggest group after the poll gets the job. The line-up is now complete. The centre-left alliance of Socialists and Democrats (S&D) has selected Martin Schulz, a German Social Democrat and president of the European Parliament; the liberal ALDE group has chosen Guy Verhofstadt, a former Belgian prime minister; and the conservative Christian Democrats of the European People's Party (EPP) picked Jean-Claude Juncker, the former prime minister of Luxembourg.

So far, so democratic, you might think. By mimicking national contests, advocates hope to regain the interest of voters and rebut Eurosceptics' denunciations of the unelected EU. But the EU is not a state, and the commission is not a government. *Spitzenkandidaten* offer voters no more direct say on what happens in Brussels. Decisions will still be shrouded in murk, whether they are made in the commission (the 27 other commissioners will continue to be appointed), the Council of Ministers (representing governments) or the parliament (with its ever-shifting alliances).

Politicising the commission, the EU's civil service, could undermine its important functions as an impartial arbiter, for instance in policing the single market and monitoring national economic policies. The Lisbon treaty ambiguously says that EU leaders should propose the candidate, “taking into account” the result of the European election. He or she must then “be elected” by an absolute majority of MEPs. Angela Merkel, the German chancellor, has been unpleasantly surprised by how much power the treaty transferred to the parliament. Despite her misgivings, though, she has so far gone along with *Spitzenkandidaten*.

In elevating Messrs Schulz, Verhofstadt and Juncker the system has patently failed to produce the best political talent that Europe has to offer. Brussels insiders with little to lose have been favoured. The pugnacious Mr Schulz has become the man to beat. The latest polls suggest his S&D group will narrowly beat the once-dominant EPP.

The EPP's decision to recycle Mr Juncker was particularly dispiriting. Having lost power in Luxembourg in December, after nearly 19 years as prime minister, he hardly represents the democratic renewal that the EU so desperately needs. First as finance minister, and then as prime minister and president of the Eurogroup of finance ministers, he played a central role in the euro-zone crisis. His wayward performance at late-night emergency meetings is the stuff of Brussels gossip, as is his comment, at the height of the crisis, that “when it becomes serious, you have to lie”. Mr Juncker's experience of striking bargains makes him better suited, if anything, to be president of the European Council, which brings together EU leaders—a job he is thought to prefer.

So why did Mrs Merkel push him as *Spitzenkandidat*? Because he speaks German and can thus challenge Mr Schulz on German television. This motive highlights another drawback: in a club with many small and mid-size countries, *Spitzenkandidaten* inevitably put the focus on the biggest ones with the most votes.

## Angela's choice

The old method of selecting a president was unedifying, and led to several disappointments. But the EU is close to stumbling into a system that may be even worse. Once leaders concede the right to choose the leader of the commission, it will be lost.

The British are most averse to *Spitzenkandidaten*, in principle and out of dislike for Mr Schulz. But they are rather friendless, and cannot veto the nomination alone. If the EPP loses because David Cameron pulled his Conservative Party out of the EPP in 2009, he may even have fewer allies.

Leaders will try to regain the initiative at a summit two days after polls close. In the end it will be Mrs Merkel's call. She would no doubt prefer to choose from a wider field, eg, a technocrat like the IMF's boss, Christine Lagarde, or former and current prime ministers like Italy's Enrico Letta and Ireland's Enda Kenny, or even the real Danish prime minister, Helle Thorning-Schmidt.

But there are several risks. If the EPP wins, and Mrs Merkel pushes Mr Juncker to the European Council, she would be exposing the sham of her support for *Spitzenkandidaten*. If the S&D wins and she rejects Mr Schulz, for fear of having an ideological rival in Brussels and of provoking an anti-German backlash, she could face a destabilising row with the Social Democrats in her own coalition. Either way, the result would be a long and ugly stalemate that would only weaken an already fragile EU. ■





## Labour and Europe

# Europhile and proud

**Ed Miliband reckons that coming out against a referendum on Britain's EU membership will boost Labour. It may help the Tories, too**

**T**WO recurring European nightmares trouble the Labour Party's strategists. In the first the Conservative Party wins the next election, scheduled for May 2015, by taunting Labour for its opposition to a referendum on EU membership. In the second Labour commits to a referendum and wins the election. It spends two years urging voters to back membership—but loses the vote, sending Britain out of the union.

In January 2013 David Cameron, the prime minister, pledged to hold a referendum by the end of 2017 if his Conservative Party wins the next election. Labour shuffled its feet, saying it would monitor developments in the EU before setting out its stall. But two camps quickly emerged within the party. Some, including Ed Balls, the shadow chancellor, worried about Labour seeming out of touch and distrustful of voters. Pointing to polling suggesting that most Britons want a say, they urged Ed Miliband to echo Mr Cameron's commitment. A second camp, including Douglas Alexander, the shadow foreign secretary, was more worried by the prospect that Labour could inadvertently propel Britain out of the EU.

In a speech on March 12th Mr Miliband tried to split the difference, but came down more firmly on the Europhile side. He said that, as prime minister, he would hold an in-out vote only in the event of a further transfer of powers to Brussels. This is "unlikely" to happen before 2020, he claimed.

The gambit is optimistic, in two ways. First, Mr Miliband might have guessed wrong about Europe: moves to integrate the euro zone could, just, trigger Labour's referendum lock earlier than he expects. Second, his move suggests he is confident of winning power despite holding only a small lead in the polls. Rather than offering a crowd-pleasing referendum, he is moving to mitigate risks to his future premiership—at the head of a Labour government or a coalition with the Liberal Democrats. (The announcement roughly aligns his policy with that of the smaller pro-European party.)

Even if Mr Miliband were desperate for votes, anti-EU posturing would probably be a mistake for him. The union inspires lit-

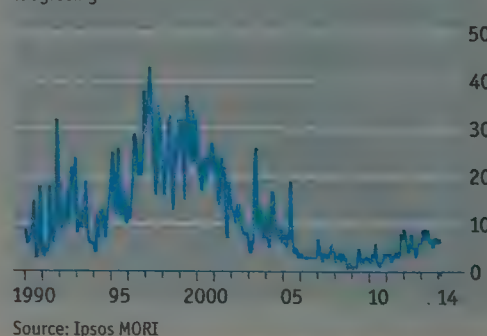
tle affection among Britons, but few are particularly exercised about it. Despite the recent turmoil in the euro zone, the proportion classing Europe as a big priority is much lower today than it was in the 1990s (see first chart). In January Lord Ashcroft, a Tory peer and pollster, reported that surprisingly few voters even knew a referendum was on the agenda. They were "non-plussed when they found out it was", he added. Mr Miliband's new position on the subject is a bet that such polls are accurate.

The speech was also part of a plan to make character central to the next election. According to YouGov, a polling firm, fewer voters think Mr Miliband "sticks to what he believes in" than think the same of the prime minister, though the gap is closing (see second chart). But Mr Miliband certainly believes in European co-operation. Labour strategists hope voters will warm to an honest display of his pro-European instincts—and contrast them with Mr Cameron's craven efforts to please his Eurosceptic backbenchers. Even if Britons care little about the issue, they like politicians who seem authentic.

Mr Miliband's proud Europhilia is also ►►

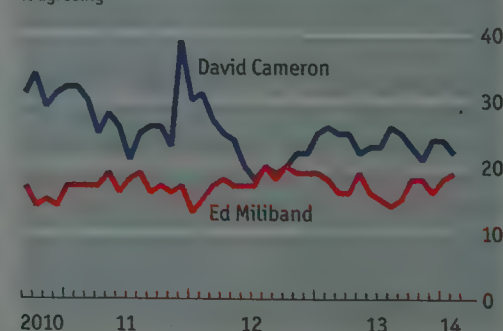
## Outside the Westminster village

*The common market/EU/single currency is one of the most important issues facing Britain*  
% agreeing



Source: Ipsos MORI

*Party leaders stick to what they believe in*  
% agreeing





intended to burnish his image with corporate bosses. Business-bashing policies like freezing energy prices and capping banks' market share have sapped support among firms and weakened Labour's economic credibility. The party's pro-European stance strengthens it, at least among the influential manufacturing and financial firms that benefit most from the single market. Mr Miliband's speech was conceived with such companies in mind and was well-received by them. The Engineering Employers' Federation praised it for "reducing uncertainty" about Britain's place in the EU.

Oddly, though, the speech may help the Conservatives as well as Labour—because the two parties are competing for different

voters. Mr Miliband was never likely to win over die-hard Eurosceptics. Mr Cameron, however, depends on their votes and frets that many will support the populist, anti-EU UK Independence Party (UKIP). Mr Miliband's new policy makes the prospect of a Labour government more distasteful to such voters, bolstering Conservative warnings that voting UKIP will split the Eurosceptic vote. Tories also plan to use it to rebut UKIP's claims that they, Labour and the Lib Dems are all the same.

Ironically, that was the aim of Mr Cameron's original referendum pledge, which had little effect on polls. Mr Miliband's effort to put clear water between the two main parties may succeed where the prime minister's failed. ■

the falling profitability of the former. The proportion of Britons reporting having taken drugs in the past year dropped from 11% in 1996 to 8% in 2012. Not everyone is a junkie, but everyone buys food and drink. Stagnant wages and unusually high inflation since the financial crisis have increased people's hunger for bargains.

Perhaps most important for crooks, humdrum crime is safer. Penalties for hawking counterfeit biscuits are considerably lighter than those for smuggling drugs or guns. For some intellectual-property theft, such as ripping off DVDs, criminals might face ten years in prison, says Stuart Shotton of FoodChain Europe, a food-law consultancy. If there are no fears about safety, he reckons that six months is more likely for crimes involving food.

Criminals are less likely to be caught in any case. The Metropolitan Police, who deal with much of Britain's organised crime, are less likely to investigate food crime than other kinds of offence, says Gary Copson, a former detective. Mr Copson, who was involved in a review of Britain's food-supply networks ordered by the government after the horsemeat affair, compares Britain's approach unfavourably with that of the Netherlands. The Dutch have a unit of 110 staff dedicated to investigating food crime; Britain has none.

Meanwhile, other controls weaken. In December another parliamentary group, the public accounts committee, noted that border police had given priority to passenger checks over other duties, including examining freight for illicit goods. Cuts to local government mean that the number of trading-standards officers is dropping. Worcester County Council proposes to slash spending on trading standards by 80% over the next three years. Britons can expect more corn fakes for breakfast. ■

## Food crime

# A la cartel

## Organised gangs have a growing appetite for food crime

**G**ANGSTERS used to send their enemies to sleep with the fishes. Today they are more likely to mislabel the fishes and sell them at a profit. Organised criminals who have long trafficked drugs are diversifying into humdrum areas of commerce—particularly food, booze and cheap consumer goods.

The horsemeat scandal last year drew attention to food fraud. Such scams are not unusual. Some 22 tonnes of long-grain rice being sold as pricier Basmati were recently seized as part of an operation led by Interpol and Europol, respectively the world's and Europe's police agencies. In Worthing, in Sussex, trading standards officers spotted nearly 2,500 jars of honey that contained nothing but sugar syrup. Another scam, involving substituting a cheap species of white fish for a pricey one, is hard to spot once the fish has been flaked, breaded and fried. Others dilute expensive olive oil with low-cost soyabean oil. Criminals even sell counterfeit washing powder.

The ancient crime of bootlegging alcohol is reviving, too. The operation that caught the rice bandits also snared a lorry carrying over 17,000 litres of fake vodka worth £1m (\$1.7m). That was probably not an isolated shipment. Criminal gangs import truckloads of cheap beer from places such as Belgium and sell it to small retailers without paying duty. HM Revenue and Customs estimates that beer smuggling costs the Treasury around £500m a year. Duty has not been paid on at least one in ten, and possibly one in five, of all cans and bottles of beer on sale in Britain, thinks the all-party parliamentary beer group.

This brand of crime is growing. In 2007 the Food Standards Agency set up a food-fraud database. That year it received 49 reports of food fraud. In 2013 it received 1,538. The scale and organisation required to produce fake food points to criminal groups. And this is no flash in the pan, reckons Huw Watkins of the Intellectual Property Office. Gangs are investing heavily in the machinery, raw materials and labour necessary to make fake food products.

Some crooks who once focused on drugs have switched to food, says Chris Vansteenkiste of Europol, partly thanks to



Crime and nourishment



# Bagehot | The kindest cut

Lord Hall is trimming the BBC intelligently. That will not be enough



**I**N HIS scrupulously modest office in Broadcasting House, the vast, art-deco headquarters of the BBC, Tony Hall looks relaxed for a man who has just taken a pair of shears to a national treasure. At least, that is how many of the public-service broadcaster's 20,000 employees view his decision to take the youth television channel BBC3 off air. Lord Hall, an avuncular 63-year-old, wearing a courteous half-smile and a media man's black suit, has just been to see its bosses. How did that go?

"They were unhappy—we've never closed anything before," he says. "But I also need to think about what is going to happen to our audience over the next three, five, ten years..." And he goes on, describing a strategy that is designed, he claims, not only to save money—as he must, by the truckload—but also to anticipate the TV-viewing habits of the future.

Lord Hall thinks the big predicted change in television, the demise of the channel, may happen far sooner than pundits predict. Data suggest only 2% of viewers are watching programmes exclusively online, where BBC3 is now heading. Yet tablet-savvy youngsters seem hardly to notice channels or schedules, picking and mixing content from the BBC's two children's channels. A step change is looming, he suspects, which will rapidly accelerate the switch to online viewing: a big problem for an outfit mostly paid for by a licence fee on television ownership. "My sense is that, although the data say that we're canoeing down a canyon, around the corner could be the most enormous waterfall."

This is a momentous idea—which also lends a reassuring intellectual ballast to the cost-cutting Lord Hall has embarked upon. Over the life of this parliament, the BBC's £3.6 billion (\$5.8 billion) budget has been held flat, even as its commitments have multiplied, the coalition government having transferred responsibility for the World Service from the Foreign Office to it. An outfit unaccustomed to penury still needs to save £100m a year. The signs are that Lord Hall is coping well, however. Even aggrieved BBC3 staffers concede that, after a dreadful couple of years, the world's biggest public-service broadcaster is in good hands.

Lord Hall is certainly building from a low base. When he switched from the Royal Opera House a year ago, the BBC was reeling from multiple scandals. The biggest stemmed from the revelation that Jimmy Savile, a recently deceased BBC presenter,

was a prolific paedophile and, what is more, that a BBC exposé of his alleged crimes had been quashed. Over-eager to compensate for the Savile debacle, a BBC programme then hinted that an elderly Tory politician, Lord McAlpine, was another child abuser—which wasn't true. Inept handling of this blunder forced out Lord Hall's predecessor, George Entwistle—eased by a fat pay-off as, it transpired, was customary for departing BBC bosses. Seedy, inept and captured by fat cats: one of Britain's hitherto revered institutions seemed hardly better than an investment bank.

To hear Lord Hall refer to that grim time, you might think the BBC's very existence had been in doubt. His speeches are peppered with commitments to "never again forget" that the broadcaster exists to serve its viewers. He has also cut the size of pay-offs and salaries—which helps to secure internal support for spending cuts. So does his generally unthreatening posture. A BBC veteran, Lord Hall is a staunch defender of its public-service ethos and responsibilities—which are to produce a blend of high-quality programming, as private firms might not, with enough popular content to justify the universal licence fee.

Polls suggest public support for that—over half of Britons are content with the licence fee. Far fewer want the BBC to pay for itself through advertising or subscription, and it is easy to see why. The broadcaster shows a lot of pap, especially on BBC3. No one should mourn the threat to "Snog Marry Avoid?" But it also produces vast quantities of fairly impartial news. Rival broadcasters gripe: by one estimate the BBC accounts for over 80% of TV news viewing. But none rivals the BBC's reputation.

## Snog, marry, who cares?

Yet Lord Hall's mission, to improve the BBC but not much change it, could come unstuck. To begin with, he is going to have to carry on cutting. "I hope we can avoid more channel closures," he says. "But I can't rule anything out." There is speculation that BBC4 or some local radio stations may have to go. Neither step would be cataclysmic; both would erode the hope of reaching everyone, a process that BBC3's demise has begun. That could reduce support for the licence fee as Lord Hall prepares to renegotiate it in 2017. Loading the BBC with extra duties could have the same effect: if the unpopularity of Britain's foreign aid budget is a guide, licence-fee payers are not keen to fund the Somali Service.

A bigger threat, as Lord Hall suggests, is the rapid rise of online viewing and the demise of the channel as a way of watching programmes. Viewers of the BBC's online iPlayer are not charged a licence fee unless they watch live TV; the Beeb says they could be. Yet the technological barriers are daunting, which is why Lord Hall, in a recent speech, cited the slow pace of viewers' migration online to argue that the licence fee has a strong future. He cannot be right both ways.

If Lord Hall is truly overseeing a revolution in television-watching, the BBC will also have to change in another way. Ever since HBO launched "The Sopranos", TV companies have understood the importance of high-class dramas for hooking viewers and building a brand. AMC, once an obscure American cable channel, did it with "Mad Men". "Downton Abbey" helped restore the fortunes of ITV, the BBC's commercial rival. In an online world where everything competes against everything this is all the more vital, which is why Netflix and Amazon are pouring money into shows. To compete, Lord Hall has promised another £30m for drama, which is shrewd. The BBC is respected, even loved. But in this regard it needs to become more remarkable. ■





Our crony-capitalism index

## Planet Plutocrat

The countries where politically connected businessmen are most likely to prosper

AMERICA'S Gilded Age, in the late 19th century, saw tycoons such as John D. Rockefeller industrialise the country—and accumulate vast fortunes, build palatial mansions and bribe politicians. Then came the backlash. Between 1900 and 1945 America began to regulate big business and build a social safety net. In her book “Plutocrats”, Chrystia Freeland argues that emerging markets are now experiencing their first gilded age, and rich countries their second, with the world's wealthiest 1%, who benefited disproportionately from 20 years of globalisation, forming a “new virtual nation of Mammon”.

Inventing a better widget, tastier snack or snazzier computer program is one thing. But many of today's tycoons are accused of

making fortunes by “rent-seeking”: grabbing a bigger slice of the pie rather than making the pie bigger. In technical terms, an economic rent is the difference between what people are paid and what they would have to be paid for their labour, capital, land (or any other inputs into production) to remain in their current use. In a world of perfect competition, rent would not exist. Common examples of rent-seeking (which may or may not be illegal) include forming cartels and lobbying for rules that benefit a firm at the expense of competitors and customers.

Class warriors and free-market devotees alike are worrying about rent-seeking. American libertarians fear an elite has rigged their country's economy; plenty of ordinary Joes reckon the government and Federal Reserve care more about Wall Street than Main Street. Many hedge-fund managers sniff that China is a house of cards built by indebted cronies.

To test the claim that rent-seekers are on the rampage, we have created a crony-capitalist index. Our approach builds on work by Ruchir Sharma of Morgan Stanley Investment Management, Aditi Gandhi and Michael Walton of New Delhi's Centre for Policy Research, and others. We use data from *Forbes* to calculate the total wealth of those of the world's billionaires who are active mainly in rent-heavy industries, and compare that total to world GDP to get a

sense of its scale. We show results for 23 countries—the five largest developed ones, the ten largest developing ones for which reliable data are available, and a selection of eight smaller ones where cronyism is thought to be a big problem. The higher the ratio, the more likely the economy suffers from a severe case of crony-capitalism.

We have included industries that are vulnerable to monopoly, or that involve licensing or heavy state involvement (see table 1). These are more prone to graft, according to the bribery rankings produced by Transparency International, an anti-corruption watchdog. Some are obvious. Banks benefit from an implicit state guarantee that lowers their cost of borrowing. When publicly owned coal mines, land and telecoms spectrum are handed to tycoons on favourable terms, the public suffers. But the boundary between legality and graft is complex. A billionaire in a rent-heavy industry need not be corrupt or have broken the law. Industries that are close to the state are still essential, and can be healthy and transparent.

### A galaxy of riches

Billionaires in crony sectors have had a great century so far (see chart 2). In the emerging world their wealth doubled relative to the size of the economy, and is equivalent to over 4% of GDP, compared with 2% in 2000. Developing countries contribute 42% of world output, but 65% of crony wealth. Urbanisation and a long economic boom have boosted land and property values. A China-driven commodity boom enriched natural-resource owners from Brazil to Indonesia. Some privatisations took place on dubious terms.

Of the world's big economies, Russia scores worst (see chart 3 on next page). The transition from communism saw political insiders grab natural resources in the 1990s, and its oligarchs became richer still as commodity prices soared. Unstable Ukraine looks similar. Mexico scores badly mainly because of Carlos Slim, who controls its biggest firms in both fixed-line and mobile telephony. French and German billionaires, by contrast, rely rather little on ►►

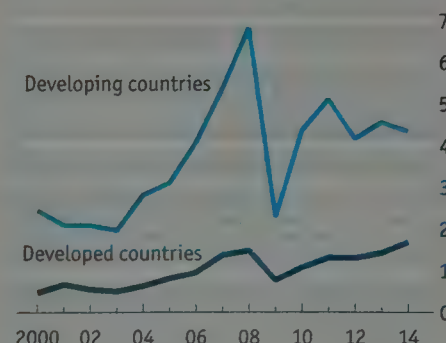
### Where the living is easy

Rent-seeking sectors included in index

Casinos
Coal, palm oil and timber
Defence
Deposit-taking banking and investment banking
Infrastructure and pipelines
Oil, gas, chemicals and other energy
Ports, airports
Real estate and construction
Steel, other metals, mining and commodities
Utilities and telecoms services

### Boom, boom, boom, boom

Billionaire wealth from crony sectors as % of GDP



Sources: Forbes; IMF; The Economist



## The crony-capitalism index

Billionaire wealth as % of GDP  
Ranked by crony-sector wealth, 2014



Sources: Forbes; IMF; World Economic Forum; The Economist

► the state, making their money largely from retail and luxury brands.

America scores well, too. The total wealth of its billionaires is high relative to GDP, but was mostly created in open sectors. Silicon Valley's wizards are far richer than America's energy billionaires. It is one of the few countries where rent-seeking fortunes grew only in line with the economy in recent years, which explains its improved position since 2007. Despite concerns about vampire-squid financiers, few of its billionaires made their money in banking. Even including private equity as rent-seeking, on the grounds that it benefits from tax breaks and cheap loans, would make little difference. Compared with Larry Ellison of Oracle, Stephen Schwarzman of Blackstone is a pauper.

Countries that do well on the crony index generally have better bureaucracies and institutions, as judged by the World Economic Forum. But efficient government is no guarantee of a good score: Hong Kong and Singapore are packed with billionaires in crony industries. This reflects scarce land, which boosts property values, and their role as entrepôts for shiffter neighbours. Hong Kong has also long been lax on antitrust: it only passed an economy-wide competition law two years ago.

Another surprise is that despite its reputation for graft, mainland China scores quite well. One reason is that the state owns most natural resources and banks;

these are a big source of crony wealth in other emerging economies. Another is that China's open industries have fostered a new generation of fabulously rich entrepreneurs, including Jack Ma of Alibaba, an e-commerce firm, and Liang Wengen of Sany, which makes diggers and cranes.

One of the most improved countries is India, which moved from sixth place in our ranking to ninth. Recent graft scandals and a slowing economy have hurt many of its financially leveraged and politically connected businessmen, while those active in technology, pharmaceuticals and consumer goods have prospered. Turkish billionaires in rent-seeking industries have been hit by their country's financial turmoil. By contrast most countries in South-East Asia, including Indonesia, Thailand and the Philippines, saw their scores get worse between 2007 and 2014, as tycoons active in real estate and natural resources got richer.

### Who are you calling a crony?

Our crony index has three big shortcomings. One is that not all cronies make their wealth public. This may be a particular problem in China, where recent exposés suggest that many powerful politicians have disguised their fortunes by persuading friends and family to hold wealth on their behalf. Unreliable property records also help to disguise who owns what.

Second, our categorisation of sectors is crude. Rent-seeking may take place in those we have labelled open, and some countries have competitive markets we label crony. Some think America's big internet firms are de-facto monopolies that abuse their positions. South Korea's *chaebol*, which sell cars and electronics to the world, are mainly in industries we classify as open. But they have a history of bribing politicians at home. China's billionaires, in whatever industry, are often chummy with politicians and get subsidised credit from state banks. According to Rupert Hoo-gewerf of the Hurun Report, a research firm, a third are members of the Communist Party. Sectors that are cronyish in de-

veloping countries may be competitive in rich ones: building skyscrapers in Mumbai is hard without paying bribes, and easy in Berlin. Our index does not differentiate.

The third limitation is that we only count the wealth of billionaires. Plenty of rent-seeking may enrich the very wealthy who fall short of that cut-off. America's subprime boom saw hordes of bankers earn cumulative bonuses in the millions of dollars, not billions. Crooked Chinese officials may have Range Rovers and secret boltholes in Singapore—but not enough wealth to join a list of billionaires. So our index is only a rough guide to the concentration of wealth in opaque industries compared with more competitive ones.

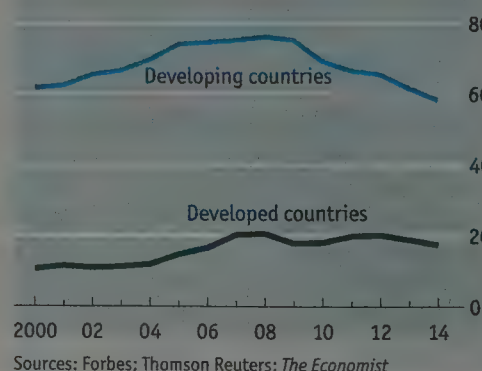
Despite the boom in crony wealth, there are grounds for optimism. Some countries are tightening antitrust rules. Mexico has many lucrative near-monopolies, from telecoms to food, but its government is at last aiming to improve regulation and boost competition. India's legal system is trying to jail a minister accused of handing telecoms licences to his chums.

Encouragingly, there are also hints that cronyism may have peaked. The share of billionaire wealth from rent-seeking industries has declined in developing countries, from a high of 76% in 2008 to 58% (see chart 4). That partly reflects lower commodity prices. But now that emerging markets are slowing, investors are becoming pickier. More are steering clear of firms in opaque industries with bad governance. The price-earnings ratio of firms in crony sectors is now at its biggest discount to firms in open sectors for 15 years. That suggests that the highest returns to outside investors are to be found in open industries.

Perhaps when growth picks up again in emerging markets, rent-seeking will explode once more. Or, as countries get richer, the share of great wealth that is made in crony industries may naturally decline. In 1900 American tycoons became rich by building and financing railroads. By 1930 the action had shifted to food production, photography and retailing. Cronies around the world should take note. ■

### Fading away

Billionaire wealth from crony sectors  
As % of total billionaire wealth

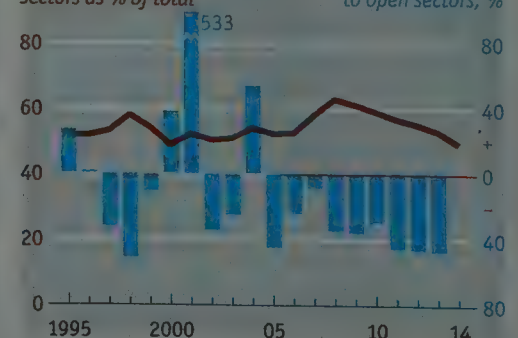


Sources: Forbes; Thomson Reuters; The Economist

Emerging markets

Market value of crony sectors as % of total

Price-earnings ratio of crony sectors: premium (discount) to open sectors, %







### Consumers in China

## The true meaning of san yao wu

SHANGHAI

China's new consumer law has local and foreign firms worried

FIFTY-TWO years ago this week, John Kennedy gave a speech to Congress in which he argued that consumers "are the only important group in the economy who are not effectively organised, whose views are often not heard." His eloquent plea for their protection led to the United Nations guidelines for consumer protection and to the annual celebration of World Consumer-Rights Day on March 15th.

Nowhere is that day marked with more gusto than in China, where it is known as *san yao wu* (three one five). Every year on that date, the national broadcaster airs a much-watched programme lauding consumer rights. It is also used as an excuse to bash successful foreign firms—Apple was last year's main target—for small or imagined transgressions.

This year China will better honour Kennedy's legacy. The television gala is still due to be broadcast this weekend, and corporate evildoers—internet firms are rumoured to be in the crosshairs this time—will probably be shamed again. But something more important will also happen. On March 15th a new consumer law, the biggest reform in this area in 20 years, comes into force. At face value, it appears to give a big boost to consumer protection. Retailers must take back goods within seven days; in the case of online purchases, consumers do not even have to offer a reason. Consumer data will be protected from

misuse, and permission will have to be sought for any commercial use of them. Class-action lawsuits, hitherto rare in China, will become easier to file.

The motivations for the law seem sincere. The government is keen to shift the economy towards consumption-driven growth. Regulations protecting consumers should help, by bolstering their trust in merchants. Max Xin Gu of K&L Gates, a legal firm, also believes the law "is timed to come hand-in-hand with the anti-corruption campaign" launched by President Xi Jinping: both are meant to allow ordinary people to benefit from the rule of law.

James Feldkamp is the founder of Mingjian, a pioneering Chinese website offering independent product reviews (akin to America's *Consumer Reports* or Britain's *Which?*). He agrees that trust and transparency are key to boosting consumption. However, he worries about how the law will be implemented and enforced. Indeed it may leave consumers ill-protected even as it saddles firms with extra costs and complexity. For example, although parts of the law resemble the EU's strict rules on data privacy, it has important gaps. Michael Tan of Taylor Wessing, another law firm, notes that it does not grant a "right to be forgotten" (by having firms expunge all record of a former customer). It leaves businesses in the dark on how exactly they can use customer data, and fails to impose on

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them a duty to ensure their accuracy.

Opening the door to class-action lawsuits may also prove a damp squib. In America aggrieved consumers can club together and go to court themselves. In China, points out Mr Tan, only government-controlled consumer associations will be allowed to launch such suits: "no ambulance-chasers here." It is hard to imagine consumers persuading these official bodies to bring suits against state firms.

Consumer businesses fear that besides falling short in protecting punters, the law will tie them up in red tape. Publicly, local firms such as Alibaba, an e-commerce giant, say they are ready. Privately, many are worried. An executive at another big Chinese firm grumbles that "it's a boatload of work and internal co-ordination to hit compliance." Worse, the bureaucracy and the risk of prosecution may deter entrepreneurs from starting firms to compete with established ones; if so, the result will end up being bad for consumers.

China is catching up with the European Union's exacting standards of consumer rights in much the same way as it has begun imposing EU-style curbs on cars' emissions. In both cases, pressure from ordinary Chinese prompted the government to tighten standards. Besides benefiting the public, the pollution measures give an edge to firms with the most advanced technology, which in this case happen to be foreign multinationals.

As for the consumer law, Western firms, used to operating within strict consumer-rights regimes back home, ought to cope better with it than domestic ones. But the opposite may happen. Although on paper the law does not discriminate between Chinese and non-Chinese businesses, a local lawyer worries about "sporadic and discretionary enforcement", in the same



► way that China's antitrust laws have been applied strictly to foreign firms whereas local ones have usually been spared.

When faced with angry customers, domestic firms often have flexible rules, and can act fast to defuse crises—even if it means quietly paying off undeserving complainants. They also “know people who scare people,” says an expert on the local business scene, which obviously helps silence troublemakers. Multinationals, in contrast, tend to be bound by rules laid down in a distant head office (which would certainly preclude sending in heavies). By the time they have reacted to problems, unhappy customers may have taken to their weibo microblogs or the news media to stir up trouble. Most foreign firms, concludes Scott Thiel, a lawyer at DLA Piper, “are just not ready for this law.” ■

### Mobile telecoms

## Four is a magic number

**But operators on both sides of the Atlantic hope to break the spell**

**I**N AMERICA, a price war is threatened. In Europe, combatants in a bloody conflict hope for peace. Both struggles have the same cause: that the number of big mobile-phone operators might be cut from four, the norm in many countries, to three. Regulators have been wary of this, fearing higher prices. In America they remain cautious. But in Europe, where markets are smaller and operators struggling, they may budge.

The talk of war came on March 11th from Masayoshi Son, the boss of Softbank, a Japanese firm that controls Sprint, America's third-largest mobile operator. Mr Son has his eye on T-Mobile USA, which ranks fourth: he wants to create a bigger rival to the two dominant carriers, AT&T and Verizon. Regulators have received the idea coolly. So has T-Mobile USA.

Lately T-Mobile USA—which bought a smallish operator, MetroPCS, last year—has waged a guerrilla campaign against AT&T, which has fought back with price cuts of its own. Mr Son promised no let-up: there would be a “massive price war” if he got his way. He added that a strong third mobile operator could also in time compete with fixed-line broadband, where choice is limited, prices are high and speeds slow.

Hope of peace comes from France, where Free, a cut-price entrant, has been harrying the established operators for two years. According to James Barford of Enders Analysis, a research firm, mobile-service revenues in France fell by 11% last year and by 6% in 2012. Profits have been squeezed hard. Among big European mar-

kets, only in Italy and Spain, where recession has been deep and long, have operators suffered more.

Hostilities may become less intense in France if Bouygues Telecom, the third-biggest operator, buys the second, SFR, from Vivendi, an ex-conglomerate that intends to concentrate on media. On March 5th Bouygues and Numericable, a cable operator, both made offers for SFR. This week Bouygues raised the cash portion of its bid. It is now offering Vivendi €11.3 billion (\$15.7 billion) in cash and 43% of the merged entity. Numericable has bid €11 billion in cash and would give Vivendi 32% of the new company. Vivendi also has a third option, floating SFR on the stockmarket.

A takeover of SFR by Bouygues looks comfiest for the mobile operators—including Orange, the leader—if not for customers. To forestall their worries, Bouygues says that if it won SFR it would sell its existing transmission network and some spectrum to Free for €1.8 billion. Arnaud Montebourg, the industry minister, made his preference plain to *Le Parisien*, a newspaper: a return to three operators would end “competition through destruction”.

The European Commission decides on most telecoms mergers in the EU, because companies usually do business in several member countries. But because SFR and Bouygues Telecom serve only France, and Numericable has little revenue from abroad, in this case the national competition authority would decide. Its boss has said this might take nine months.

By then the commission may already have allowed a similar deal in the EU's biggest country. In May it is due to pronounce on the purchase by Spain's Telefónica of e-Plus, the German arm of KPN, a Dutch operator. Last month the commission sent the Spanish firm its objections, which Tele-

fónica is confident it can meet. The commission is also mulling Telefónica's sale of its Irish business to Hutchison Whampoa. The Hong Kong firm has made proposals, thought to include a release of spectrum, to assuage the commission's concerns.

In 2012 the commission approved a four-to-three deal in Austria, where Hutchison Whampoa bought out Orange. Some blame a shortage of competition for higher prices since. Austria's new telecoms regulator, Johannes Gungl, has reportedly said that rising prices were “a warning signal, but also mean that the attraction for new competitors increases.” (Mr Gungl used to be Orange Austria's general counsel.)

Europe's merger wave also reflects the convergence of mobile and fixed-line service, broadband and television. Mobile alone will no longer do. Vodafone, a British operator, is thought to have offered more than €7 billion for ONO, a Spanish broadband, pay-TV and phone company, to boost its mobile business in Spain. As *The Economist* went to press on March 13th Ono's shareholders were due to vote on an earlier plan for flotation. Last year Vodafone splashed out €7.7 billion on Kabel Deutschland, Germany's biggest cable company. Convergence is technological as well as commercial, notes Robin Bienenstock of Sanford C. Bernstein, another research firm: for most of their journey “mobile” signals are carried over fixed lines.

More four-to-three mergers may ease operators' woes but will not end them. A bigger and thornier problem, says Anne Bouverot, director-general of the GSMA, the operators' trade association, is that the EU is still divided into 28 national markets, each with its own regulations. If only, think the Europeans, they could enjoy the scale of AT&T and Verizon. And if only, thinks Mr Son, I could, too. ■



On the block



## Mining in Colombia

## Digging itself out of a hole

BOGOTÁ

The government struggles to contain a public backlash against miners

UNTIL recently Colombia was lax in enforcing its environmental laws. So it came as a shock to the country's mining industry when, in January, the government halted coal exports from a port operated by Drummond, an American miner, in a row over pollution. The suspension has been costly not only for Drummond: its operations generate \$66m a month in royalties and taxes for the Colombian treasury.

The mining minister, Amylkar Acosta, confirmed this week that the government would let the company resume its exports later this month, when it completes improvements to the port facility to prevent contamination of nearby beaches. The government has been under pressure to take action since environmentalists photographed an incident last year in which more than 500 tonnes of coal were dumped into the Bay of Santa Marta to stop a barge from sinking (pictured). Last month six employees at the port were charged, and face possible jail sentences. Drummond has been fined \$3.6m and told to clean up the mess.

## Undeniable climate change

The case is an illustration of how the government, having welcomed foreign miners, is now having to contend with public disquiet over both pollution and the way the country's mineral wealth is shared. In an election in May, President Juan Manuel Santos will seek a second term. So he cannot ignore the "hostile" climate of public opinion on the issue, says Alvaro Ponce, a Colombian mining expert.

Protests by nearby residents have delayed several big projects, including Anglo-Gold Ashanti's proposed gold mine in Tolima province and Eco Oro's planned gold and silver mine in Santander province. A study by Colombia's national audit office, published in January, found that economic and social development in towns next to large mining operations is worse than in places where illegal coca crops are grown for making cocaine.

The environment ministry is seeking new powers to require licences for exploration as well as extraction. Mining firms grumble that the process of getting projects approved is already tortuous enough. This and the recent fall in world prices of some minerals mean that up to \$7.3 billion of investments are stalled, they say. Mr Acosta says the miners must accept that besides getting their official permits, they have to



Caught on camera

convince local communities to accept their presence, earning a "social licence" to operate. "Without that, the projects become unviable," he says.

The backlash against mining has been building for some years. In the mid-2000s, when commodity prices were booming and Colombia's internal conflicts were subsiding, the government offered incentives for foreign firms to come in and create mining jobs. It awarded exploration permits for swathes of territory, including in areas hitherto off limits, such as the fragile páramo tundra in the Andes. "The floodgates were opened," says James Lockhart-Smith of Maplecroft, a risk-analysis firm.

But Colombia's regulators were ill-prepared. In 2011 the government stopped accepting new applications for licences while it dealt with a backlog of 19,000. It rejected 90% of these, then turned its attention to 10,000 projects that had already been given licences, finding that 92% were failing in some way to comply with their conditions.

Despite all the stumbles and setbacks, Colombia is getting somewhere in its drive to exploit its mineral reserves. In 2013 mining investment was \$3.6 billion, 21% more than in 2012. Mining already accounts for 2.3% of GDP and 7% of exports, and foreign companies are still lining up to explore new prospects. By the standards of resource-rich emerging economies, it is a fairly well-run place, so the chances are that it will succeed in coming up with a licensing regime that eases public worries without deterring investment. As in richer countries, mining projects will still be welcomed, but not at any price. ■

## Railways in Mexico

## Something to choo-choo over

NUEVO LAREDO

An attempt to boost competition in freight rail needs a rethink

THE depot of Kansas City Southern de México (KCSM) in Nuevo Laredo, on the border with Texas, is something to behold. Red, yellow and black locomotives pull in trains that stretch back more than a mile. They carry grain and scrap metal from the United States. Heading north are cargoes of car chassis, and long lines of containers. Watching the trains hurtle across the flat, scrubby terrain is awe-inspiring. They are proof of Mexico's burgeoning commerce with America. But this is bandit country—one of the most violent stretches of the border—giving the scene an Old West aura.

The performance of KCSM, and the other half of Mexico's freight-rail duopoly, Ferromex, has been awe-inspiring too. When Mexico started to privatise its freight lines in 1995 (it had given up on passenger trains, though there are now plans to reintroduce them), they were slow, rickety subsidy-burners, costing taxpayers hundreds of millions of dollars a year. Since then the amount of cargo has almost doubled, and the share of land freight carried by rail, as opposed to road, has risen from 19% to 25%.

Average tariffs are slightly higher than in the United States and Canada, which have a similar model of regional operators owning both train and track. But according to the OECD, the performance is generally better than among Latin American peers (see chart). Instead of needing subsidies, the companies have made big profits—and investments. So it came as a shock last ▶▶

## Hats off to the Mexicans

Latin American railway tariffs by company  
2011-12, average US cents per tonne-km



Source: OECD International Transport Forum



► month when a bill sprinted through the lower house of Congress, on the first day of a new session, that sets out to change the terms of their 30-year concessions after only 17 years.

The bill's authors had President Enrique Peña Nieto's backing. Rail bosses say he was talked into supporting it by steel-makers, whose trade body, the National Steel Chamber, is headed by a friend of the president, Alonso Ancira. The Chamber says that the rail costs of shipping steel through Mexico are 57% more than in the United States, which it blames on a lack of competition. The lower-house bill set out to fix that with three new impositions on the concession-holders: regulation of their tariffs where necessary; a requirement to offer smooth interchanges between their networks; and freedom for new competitors to use their lines, even though they would not have to invest in their upkeep.

At first sight, this fits neatly with other trustbusting reforms by Mr Peña's administration, such as in telecoms and electricity. In these, dominant firms will be forced to let others connect with their networks on reasonable terms, to increase competition and cut prices. Jesús Ignacio Navarro of the Federal Economic Competition Commission argues that in terms of interchange or interconnection, rail is "conceptually similar" to other networks.

But in a public forum on March 5th and 6th, held by the upper house of Congress to check that the lower house had done its homework, some competition specialists used international examples (Britain's bungled rail regulation, for example) to argue the opposite. They said that unlike the case of phone networks, there was a danger that too much competition could lead to congestion of rail lines and worsening standards of service. If it led to excessively low tariffs, it could dampen investment in the network and eventually harm the industry. As Rafael Ch of Cidac, a think-tank, puts it: "Just because rail is a network doesn't mean it should be treated like telecoms or electricity."

Cidac and the OECD's International Transport Forum argue that the market could be improved through regulatory tweaks rather than the sweeping changes the bill envisages. They say that for many types of cargo, road haulage provides effective competition. Tariff regulation should focus almost exclusively on "captive goods" such as minerals and grains that it is only economic to send by rail.

Senators hint that they will tone down the bill—not least because drastically changing the terms of a concession part-way through would send a bad signal to foreign investors just as Mexico is inviting them to invest in its oil industry. A bit more competition would be welcome, but not so much that it endangers one of the most vital arteries of North American trade. ■

## German firms in Russia

# Lovers, not fighters

BERLIN

German exporters are pushing back against economic sanctions on Russia

DIPLOMATS wonder if Germany will ever back harsh consequences for Russia over its invasion of Crimea. Second-world-war history weighs on German decision-making. But economics does too. Germany gets about a third of its oil and gas from Russia. It also sends a lot of its exports of manufactured goods there. Germany alone accounts for almost a third of the EU's total exports to Russia. And Russia is Germany's 11th-biggest export market, worth €36 billion (\$48 billion) last year.

The Committee on Eastern European Economic Relations, a lobby group representing big businesses, says that 300,000 German jobs depend on trade with Russia, 6,200 companies with German owners are active in Russia, and German companies have invested €20 billion there. No surprise, then, that the committee's boss calls sanctions "senseless".

The biggest export industry is cars and motor parts. Daimler, BMW and Volkswagen have all been pushing into Russia: though Germany's overall exports to the country fell by 5% last year, the motor industry's sales rose by 22%. VW is the leader, selling more than 200,000 cars there last year. In public, the car-industry bosses are guarded, but it is a fair bet that they have been lobbying their government contacts.

Machines are the second-biggest export sector, with almost €8 billion of sales to Russia in 2013. That makes it Germany's biggest machine-export market after China, America and France. Many of the sellers are smallish, family-owned *Mittelstand*

firms, which would be hit hard if sanctions led to a fall in trade. Ulrich Ackermann of the German Engineering Federation notes that the country's exports of machinery to Russia, unlike those of fancy cars, go back to Soviet days. Many *Mittelstand* companies are not big enough to ride out a prolonged conflict. Like other industry representatives, Mr Ackermann is careful to avoid implying that industrialists should make foreign policy. But he goes on to say that "we don't have any examples of sanctions achieving what politicians wanted."

Since Russia mainly exports energy and imports finished goods, energy-intensive German industrial exporters would be hit twice by any fall in trade. Chemicals is the third-biggest export sector to Russia, worth €3.2 billion (after 13% growth) last year. BASF, a chemicals giant, uses Russian gas as both an energy source and a feedstock; in turn it sold €1.4 billion of its €74 billion total sales in 2013 to customers based in Russia. To insulate itself from rising power prices, BASF generates a lot of its own electricity at its enormous complex in Ludwigshafen, in south-western Germany. But it does so with gas turbines.

Companies with operations on the ground in Russia are especially nervous. Metro, a hypermarket operator with a daughter, Media Markt, that sells electronics, had sales of €5.3 billion in Russia last year. It has been preparing to float a stake in its Russian "cash-and-carry" (self-service wholesale) operation on the London stock market, but its plan will probably now ►►



Another of Germany's key exports to Russia



► have to be postponed, if not cancelled. Many German manufacturers, such as Siemens, which builds locomotives for the Russian state railway, have plants in Russia. A law being considered in Russia's parliament to allow the expropriation of foreign firms' assets may be a bluff, but it is a scary one for those with big, immovable investments there.

Anton Börner of the Federation of German Wholesale, Foreign Trade and Services, another industry group, says that whereas a shutdown in trade would be "painful" for Germany, it would be "existentially threatening" for Russia, which would feel the impact "immediately". German gas-reserve tanks are full with several months' supply. Nevertheless, Mr Börner, like the leaders of other business federations, calls for an "urgent" de-escalation rather than sanctions, arguing that "Putin is part of the solution." His member companies call him daily with their worries. He tells them "Be prepared. This is going to get difficult." But not if he and other German business lobbyists get their way. ■

## Facilities management

# Service elevators

PARIS

**Big outsourcing firms find that escaping the crowd is not so easy**

IT IS a sprawling, unseen, unglamorous industry that is hard to define and harder still to measure. Outsourced facilities-management firms clean offices, guard premises, feed students, manage heating and lighting, move prisoners from cell to workshop, and so on, for customers who prefer to focus on their core activities.

Employing millions, outsourcing firms have combined revenues that some put as high as \$1 trillion a year. The market is most established in Europe and North America, though it is on the rise in Asia too (see chart). Now the structure of the business is changing, as firms that used to specialise in one sort of outsourced service increasingly aim to be all things to all men, and trip over each other in the process.

This week a giant of the industry went public. iss, a Danish cleaning firm which has branched out into other countries and services, will raise at least Dkr8 billion (\$1.5 billion). It is not the first time since the firm was taken private in 2005 that its owners have sought a stockmarket listing or a buyer for the debt-laden company, but this time the markets have proved receptive.

Although iss will use much of the money raised to repay debt, it is "nowhere near just a financial transaction", says Jeff Gravenhorst, its boss. He hopes that being listed



will raise the company's profile, helping it attract talented staff and win big contracts. iss is especially keen to accumulate more "integrated" facilities-management deals, in which besides mopping the floors it provides the whole range of support services in a big commercial premises.

Demand for this sort of contract is increasing at around 7% a year, according to Frost & Sullivan, a research firm—faster than the growth rate for providing single services. iss has been chasing such do-it-all deals in recent years, such as one it struck in 2012 to take care of Barclays' worldwide offices. Non-cleaning services accounted for around half of iss's Dkr78.5 billion in revenues in 2013, up from 43% in 2006.

iss's larger main rival, Sodexo, sees the market in much the same light. The family-controlled French firm was originally known for running canteens in offices, hospitals and schools, diversifying into lucrative luncheon vouchers and employee benefits. It grew big in the 1980s as more businesses joined the outsourcing trend and bigger still when governments, beginning with Britain's, started setting up public-private partnerships to build and run facilities. When "soft" services like catering and cleaning showed signs of becoming commodities, Sodexo expanded into "hard" services such as building maintenance and energy management. Acquisitions came thick and fast, helping Sodexo increase its foreign operations too.

Today, with turnover in the year to August 2013 of €18.4 billion (\$25 billion) and around 430,000 people on its payroll in 80 countries, Sodexo is not only the second-largest supplier of outsourced catering services (after Compass Group of Britain) but also one of the world's biggest providers of integrated facilities management. Non-food services have risen to around 27% of revenues, from 18% in 2005. Sodexo is continuing to move up the value chain, prepping laboratory instruments for Johnson & Johnson, for instance, and maintaining body scanners in hospitals. Sodexo's boss, Michel Landel, says that by taking over services previously run in-house, it typically cuts customers' costs by 10-20%.

Sodexo and iss are not alone in broad-

ening the range of services they offer. GDF Suez, a French utility with long experience of helping customers manage energy consumption, bought the facilities-management arm of Balfour Beatty, a British construction firm, in 2013. "We're the opposite of Sodexo," says Jérôme Tolot of GDF Suez: "They started in soft services and are increasingly moving into hard services. We started in technical services and are increasingly into soft." Likewise Vinci, a French firm that builds and runs infrastructure projects around the world, entered a new realm when it bought Faceo, a provider of soft services, in 2010. International property agents such as CBRE and Jones Lang LaSalle are also touting themselves as all-purpose facilities managers.

So having moved into more sophisticated services to escape the commoditised businesses of serving cups of coffee or swabbing floors, Sodexo and iss once again find themselves in crowded markets. Both are cutting costs and dropping unprofitable contracts to boost performance.

But in the longer term they will need to do more than that. Per Anker Jensen of the Technical University of Denmark says that, as in other crowded industries, the survivors in the outsourcing game will have to do better than just offer the keenest prices: they will need to be innovators, constantly coming up with useful new services that their clients never realised they needed. ■

## Legal jobs

# The price of success

NEW YORK

**Some American law schools are paying many of their graduates' salaries**

EACH YEAR when U.S. News, an American publisher, releases its league table of law schools, potential students seize on it and the universities decry it for oversimplifying a personal and unquantifiable decision. But the schools can ill afford to ignore it, since not just applicants but donors and even credit-rating agencies pay close attention to the scores.

Among the ranking's most important components is the share of graduates who find jobs. The 2014 table, announced on March 11th, shows that the University of Virginia (UVA) and George Washington University (GW) do especially well on this. Although UVA's law students are only in ninth place for their scores in standard admission tests, 97.5% of the class of 2012 had a job on graduating—the best mark in the country. At GW the discrepancy was even more striking: its 85% graduate-employment rate ranked ninth, whereas its admission-test scores were 21st. ►►



► However, the two schools' performance is not as stellar as it seems. A close look at the online employment database of the American Bar Association reveals that GW and UVA are among the leaders in a striking trend: law schools paying the salaries of their alumni when they go to work in legal firms, non-profits or the government. GW paid the starting salaries of a whopping 22% of its 2012 graduates; at 15%, UVA was not far behind.

Some law schools have long given aid to a few alumni who forsake high-paying corporate firms to pursue public-interest law. But since the 2008-09 recession, entry-level jobs at big firms have been scarce. This has led to a big expansion of "bridge to practice" schemes, in which the schools pay graduates a stipend to do a work placement. In a recent survey by the National Association for Law Placement (NALP), 45 of the 94 schools that responded now run such programmes. Half of them began in 2009 or 2010, but UVA's has run since 2007. It now pays \$31,500 for graduates to work in public service for a year. Arizona State University plans to set up a non-profit law firm, modelled on teaching hospitals, that will hire 30 recent graduates to provide legal services to lower-income clients.

With demand for newly minted lawyers down by around 30%, the schemes spare the alumni from having an awkward gap on their CV, and give them valuable work experience and contacts. Their cash-strapped temporary employers, meanwhile, get talented staff they can put to socially useful ends. Dennis Corkery, a GW graduate, got \$525 a week from his *alma mater* to work on job-discrimination cases at the Washington Lawyers Committee for Civil Rights and Urban Affairs, a non-profit. The organisation started topping up his wages from the university after four months, and gave him a full salary after 11. Mr Corkery sees the scheme as a good way to give young lawyers an "apprenticeship".

But so long as graduates put on these schemes are lumped in with those who found genuine paid work at law firms, the schools will in effect be buying themselves precious U.S. News ranking spots for a few million dollars a year. And applicants to law school who are considering taking on a six-figure debt will get a misleading picture of the job market. The programmes rarely last more than a year, and often pay a pittance. GW, which spends 4% of its budget on these wages, tried to cut pay rates in 2012 from \$15 an hour to \$10 before reversing itself after an uproar. Moreover, their success in getting graduates into genuine jobs is spotty: the NALP survey found that only 24% of participants from the class of 2012 had been hired by their employers or in related fields by the following February. GW and UVA say their success rate is far higher than this.

Robert Morse of U.S. News says it would

consider excluding or reducing the weight of school-funded jobs if it could somehow distinguish which ones are genuinely sought-after placements with the prospect of a proper job. The risk is that, like pre-bail-out carmakers dumping surplus vehicles on their dealers, the law schools get used to paying legal firms to soak up their excess graduates. The real test of the schools' motivations will be whether they continue to run such programmes if and when it no longer bumps them up the rankings. ■

#### Photographic agencies

## Moving pictures

NEW YORK

**Having shaken up the photo business, Shutterstock is now focused on video**

THESE days Silicon Alley has a Silicon Skyscraper at its top end. The Empire State Building, once stuffed to the viewing-deck with fusty, dark wood offices, has become home to several geek-filled open-plan floors. First in was the fast-growing New York arm of LinkedIn. Now, complete with gourmet cafeteria and video-game room, it has been joined by Shutterstock, the most successful tech firm to emerge in the Big Apple since it started claiming to be the new home of digital innovation.

Shutterstock was founded in 2003 by Jon Oringer, a programmer who had previously sold software to block pop-up ads. Sending out marketing e-mails, he had become frustrated by the limited supply of cheap photos to use, and when a Microsoft

software upgrade killed his business, he decided to focus on solving the photo problem by creating an online marketplace for stock shots, starting with 30,000 he took himself over the course of a year.

Mr Oringer's goal was to make the meeting of supply and demand as simple and data-driven as possible. Customers can either buy the right to use a single image or pay a subscription to use up to 25 a day. Subject to a rudimentary quality review, supply was opened up to anyone who wanted to post pictures for sale, getting paid between 25 cents and \$120 each time they are downloaded. Detailed tagging about what is in each picture (dog, hat, shades) plus feedback on what is and isn't selling have led to constant improvements in searchability for consumers. This has also helped to generate the right supply by telling photographers where demand is strongest or most unmet.

In contrast to many other startups, Shutterstock's business model of get paid first, pay out later helped to make it instantly profitable. Its revenue growth has averaged 30% a year. Between them, 55,000 photographers around the world submit about 30,000 pictures a day, about half of which are accepted, adding to a total library of over 30m images.

Since 2006 it has also supplied videos; indeed, the firm's supply of cheap, high-quality video may begin to displace the expensive production outfits that work for ad agencies, says Brian Fitzgerald of Jefferies, an investment bank. Shutterstock is also dipping a toe into the nascent market for instructional videos. Mr Oringer reckons this is similar to the \$4 billion-6 billion stock-images market but is potentially far bigger. So far Skillfeed.com, its subscription-based website, is mostly offering videos that teach the skills needed by its army of photographers and those who consume their work. Its hits include "How to cast realistic shadows in Photoshop".

Shutterstock's share price has quadrupled since its initial public offering in October 2012, giving it a market capitalisation of about \$3 billion. That is despite it falling by 14% after Getty Images, the incumbent whose business Shutterstock's rise has hurt most, announced on March 6th that it will make more than 35m images available free for personal use.

The move by Getty, which is owned by Carlyle, a private-equity firm, suggests that it is feeling the heat from its upstart rival. It has long had a crowdsourced online market of its own, yet it has more onerous terms for both customers and photographers than Shutterstock, says Mr Fitzgerald, who blames an indebted incumbent's fear of cannibalising its existing business. As Mr Oringer points out, Getty is only making pictures free for non-commercial users, whereas "99.9% of our business is commercial use." ■



It took us, ooh, ages to find this pic



# Stock up on smart

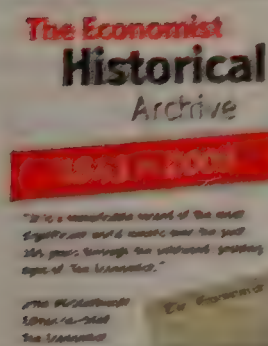
Inspiring gifts from The Economist Store collection



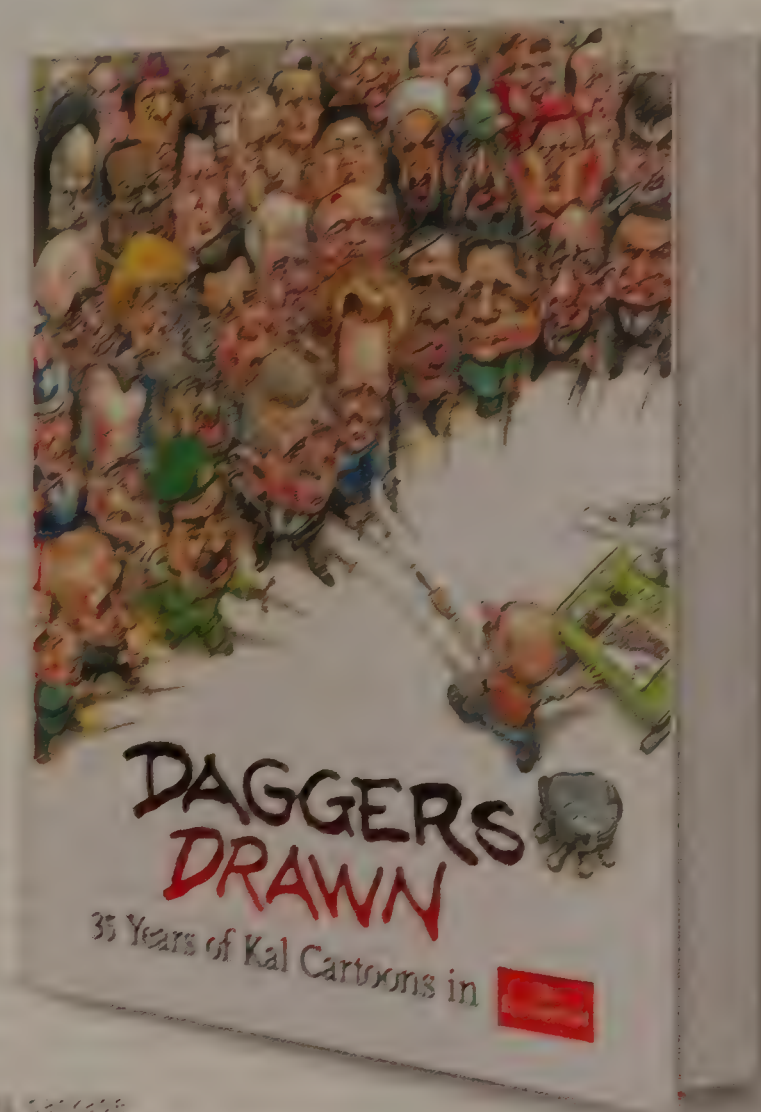
Poster, 60cm x 90cm



Book, 16cm x 24cm



Book, 16cm x 24cm



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# Schumpeter | Ideas reinvenTED

TED has revolutionised the ideas industry, in part by putting old wine in new bottles



**T**HE first TED conference in 1984 was such a damp squib that the organisers did not hold a second one for six years. Today TED (which for the uninitiated stands for Technology, Education, Design) is the Goliath of the ideas industry. The heart of the enterprise is TED's twice-yearly conference at which big ideas are presented in short, punchy talks. On March 17th–21st around 1,200 TEDsters will gather in Vancouver to listen to the likes of Bill Gates and Nicholas Negroponte celebrating TED's 30th birthday and thinking great thoughts. The conference has also spawned an array of businesses, albeit not-for-profit ones.

The organisation has built an electronic warehouse of more than 1,700 previous talks, at TED.com. These are free to view and, so far, they have been watched nearly 2 billion times. It has generated a mass movement: volunteers have put on more than 9,000 TED-like events called TEDx in 150 or so countries since 2009. It has established a TED prize (worth \$1m), a TED fellowship programme and a line of TED e-books. And it has become a central part of the world's star-making machinery: an invitation to speak at TED can turn an obscure academic into a superstar guru and a struggling journalist into a celebrated writer.

Such success has inevitably produced a backlash. Critics dismiss TED as the Starbucks of intellectual life (though YO! Sushi may be a better comparison). Evgeny Morozov, a technology pundit, says it has become "something ludicrous, and a little sinister". Benjamin Bratton, a sociologist, goes further and suggests that TED is a recipe for "civilisational disaster". In his view TED really stands for "middlebrow, megachurch infotainment". The *Onion*, a satirical website, has produced a series of "Onion talks" including "A future where all robots have penises".

There is certainly some truth in these criticisms: any organisation that invites Sting to its 30th birthday party is in danger of jumping the shark. But criticism must be tempered by admiration for what TED has achieved. It does indeed have a weakness for celebrities. But it has also discovered hundreds of lights hidden under bushels: the most viewed TED video, with 25m downloads, features Ken Robinson, a once-obscure British educationalist. It is true that TED shrinks big ideas into bite-like chunks. But it has also demonstrated that there is a huge market for big ideas.

TED is the perfect example of the power of disruptive innova-

tion. The ideas business was already overcrowded when it began to flex its muscles. The BBC rejected an early TED talk on the ground that it was too intellectual. But TED has rewritten the rules. Conference regulars compare the corporate pabulum that they are served at Davos with the intellectual sustenance they receive at TED. Businesses now hire it to run their in-house conferences. Publishers compete to sign up its speakers. TED has done more to advance the art of lecturing in a decade than Oxford University has done in a thousand years.

The man at the heart of this disruption is Chris Anderson, a journalist turned entrepreneur who calls himself TED's curator. (He is unrelated to the namesake who used to edit *Wired* and before that wrote for *The Economist*.) Mr Anderson made his money publishing computer and business magazines. He bought TED in 2001 and set about turning a cult conference into a multimedia phenomenon, by bringing together the two worlds that he knew best: the journalistic one of storytelling and the high-tech world of disruptive change. And he provided TED with both a powerful business model and a pipeline of polished output.

TED uses a shrewd combination of paid-for and free products, the purpose of the latter being to generate buzz. Tickets to its five-day conferences cost at least \$6,000. It sells an ever-growing array of TED-branded products. But it has also been generous with its intellectual capital—not only giving away videos on the internet but also granting licences to enthusiasts to stage TEDx events. To ensure quality it sends all speakers a stone tablet engraved with the "TED Commandments", starting with: "Thou shalt not simply trot out thy usual schtick". Talks must last for just 18 minutes—"Long enough to be serious and short enough to hold people's attention", as Mr Anderson puts it. Potential speakers are carefully auditioned and extensively trained—and subtly reminded that only successful talks will be put online.

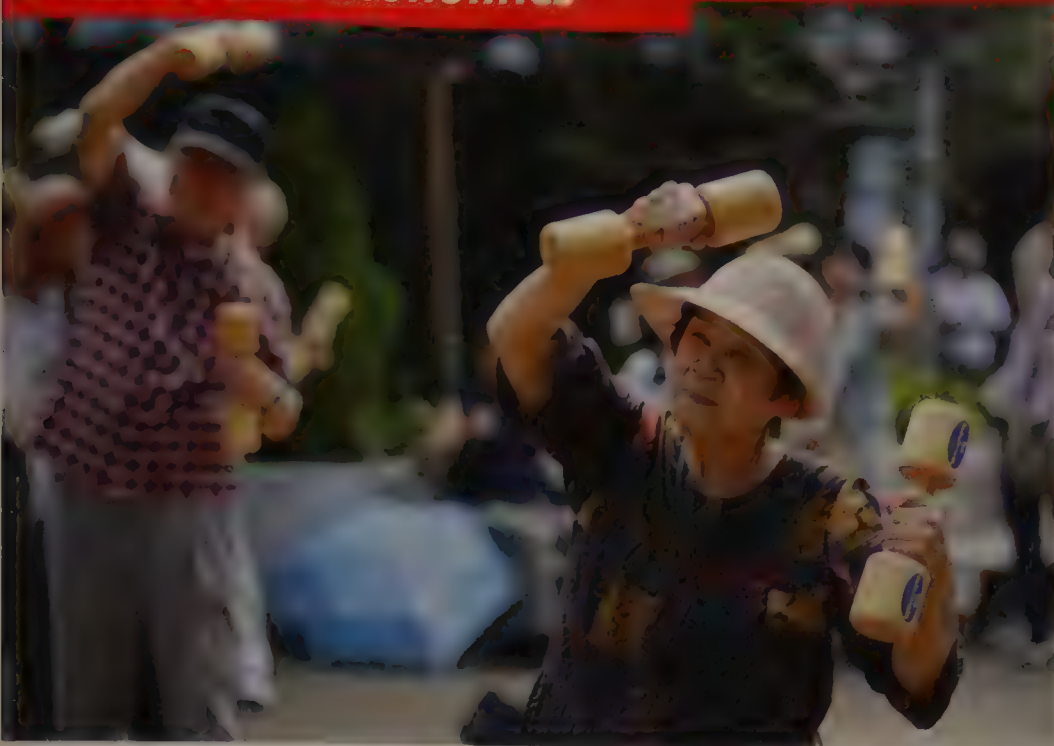
TED is constantly striving to improve its products and expand its pipeline. It has invested heavily in camera crews and stagecraft. It has experimented with shorter formats such as "TED in three minutes". It has even introduced an "American Idol" element: about half of the speakers at each conference are chosen by competitive auditions that take place all over the world and are theoretically open to anyone.

## Modern-day missionaries

TED has become the leading ideas festival of the digital world. It draws much of its audience as well as many of its star speakers from the technocracy. It champions tech solutions to problems: its talks tend to give the impression that there is no ill in the world that cannot be solved with a laptop and an internet connection.

But there is also something old-fashioned about it. TED meetings have a revivalist feel, from the preacher's promises of salvation to the happy-clappy congregation. It is revealing that Mr Anderson is the son of missionaries, and, in rather Victorian fashion, grew up in India before going to Oxford. TEDsters can also sound like modern versions of Dale Carnegie, the author of "The Art of Public Speaking" (1915) and "How to Win Friends and Influence People" (1936). A striking number of TED talks preach that you can have it all, a great career and a fulfilled life, if only you work hard and follow your passion. The ultimate secret of TED's success is not its commitment to disruptive innovation but its ability to repackage old-time religion for the digital age. ■





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## Japan's pension giant

## Risk on

TOKYO

The world's largest pension fund is changing the way it invests, with big consequences for the market

WHEN George Soros, a billionaire investor, met Shinzo Abe, the prime minister of Japan, at Davos in January, he hectored him about asset management. Japan's massive public pension fund needed to take more risk, he reportedly told Mr Abe. With ¥128.6 trillion (\$1.25 trillion) of assets, the Government Pension Investment Fund (GPIF) is the world's biggest public-sector investor, outgunning both foreign rivals and Arab sovereign-wealth funds. Yet its mountain of money is run by risk-averse bureaucrats using an investment strategy not much more adventurous than stuffing bundles of yen under a futon. It keeps around two-thirds of assets in bonds, mostly of the local variety. Like an investing novice, it mostly follows indices passively, and hardly ventures abroad.

The government would dearly love to oblige Mr Soros. Mr Abe is now taking steps to overhaul the fund. In November last year an official panel laid out a plan of far-reaching reform, some of which could take effect as soon as this year. To boost returns to future pensioners, it concluded, the GPIF should reduce its reliance on bonds, head into stocks and also invest in different asset classes including infrastructure and venture capital.

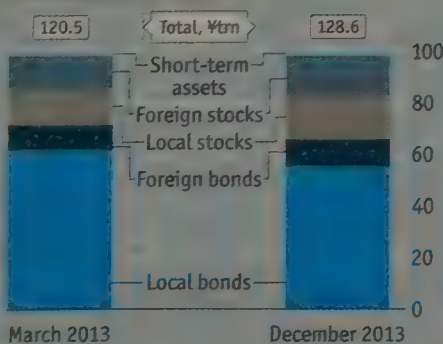
Most radically, the government wants to break the ties that bind the GPIF to the Ministry of Health, Labour and Welfare. It is the ministry's cautious bureaucrats that keep the fund so averse to risk-taking. Even

with a low return, of an annualised 1.54% over the past 12 years, the GPIF has met its own targets cheaply. The ministry is frugal to the point of meanness. The fund's 80-strong staff are often unable to buy the market data they need. It is one thing to keep costs low, quite another to forgo receptionists, as the GPIF does at its non-descript office in Tokyo.

For Mr Abe, gearing up the fund is part of his plan to revive Japan's economy, alongside a radical monetary easing which the Bank of Japan began in earnest in April 2013. As well as defeating deflation, Mr Abe seeks to boost risk-taking in the economy. The planned changes to the fund also include demanding better corporate governance from Japan's large companies.

## Abe's next arrow

Japan's Government Pension Investment Fund  
 Asset allocation, % of total



Source: Government Pension Investment Fund

Already, the markets are anticipating the effect of the slow shift in direction. GPIF's influence is amplified by other public pension investors following its lead. The fund lowered the weight of Japanese government bonds (JGBs) from 62% in its portfolio in March 2013 to 55% at the close of the year, putting most of the money—roughly ¥8 trillion—into local and foreign shares instead (see chart). The GPIF's shift may have contributed to the giddy rise of Japan's stockmarket, which was one of the best-performing rich-country bourses in 2013. For investors, the likelihood that the GPIF will continue shifting towards equities is a convincing reason to buy Japanese shares. That in turn reinforces Mr Abe's will to enact the reform. So far this year the Nikkei's rise, an important contributor to the government's broad popularity, has stalled.

But for every equity punter cheering on the reform, there is a JGB holder fretful about the eventual impact on prices if the asset class's biggest backer continues to sell off. Investors have long predicted a melt-down in the Japanese bond market, given that its public debt stands at nearly 240% of GDP. One explanation of why the cost of borrowing for the government has remained low is that JGBs are chiefly held by loyal local banks and by public pension funds, rather than by foreigners who would demand a higher risk premium. Yet the landscape is changing as retirees draw down their savings, meaning that institutional holders will become still more important. Ominously, Japan's current account has moved into deficit.

For the time being, the monetary easing undertaken by the Bank of Japan will more than offset the effect of any bond sales by the GPIF. So now is exactly the right moment for the fund to sell with no fear of triggering a broader sell-off, argues Takatoshi Ito, the chairman of the government-



► backed panel on the GPIF.

Yet though the fund may at last escape its duty of holding oodles of government debt, the shift could exacerbate problems once the central bank starts eventually to withdraw from its “quantitative easing”. The partial withdrawal of the GPIF from the market, says Naka Matsuzawa, chief strategist at Nomura Securities in Tokyo, may contribute to a crisis later on. When in December Mr Ito called for a radical cut in the GPIF’s bond portfolio from 55% down to 35%, yields on JGBs temporarily rose.

The basic arguments for overhauling the fund are persuasive. With an ageing

population, meaning the fund is already paying out more in benefits than it receives in contributions, it can ill afford to settle for a low-risk, low-returns approach. Its strategy stands in contrast to pension pots in Canada and Australia, for example, which are given leeway to be more daring. They also regularly badger managers of the firms whose shares they own. Obliging the GPIF to insist on more active oversight of firms would be the most useful way to improve Japan’s corporate governance, says Hans-Christoph Hirt of Hermes, a British fund manager.

For now the GPIF and the ministry are

together resisting Mr Abe’s initiative. The GPIF’s purpose is not to lift the stockmarket but to invest the people’s money in a safe and efficient way, complained its president, Takahiro Mitani, in February. The GPIF will probably seek to reduce its bond portfolio by as little as it can. The labour ministry’s bureaucrats are understandably loth to forgo the prestige of managing the planet’s single-largest pot of money. Yet the government is determined to overcome opposition, say insiders. Mr Soros, who reportedly made a cool \$1 billion by shorting the yen in 2013, may soon be called in to offer further lessons. ■

## Buttonwood | The big issue

### Are credit markets getting frothy again?

**S**ETH KLARMAN, who runs Baupost Group, a big hedge fund, is worried. In his latest letter to investors, he writes that “a sceptic would have to be blind not to see bubbles inflating in junk-bond issuance, credit quality and yields.” Recalling the credit boom, he adds that “here we are again, mired in a euphoric environment in which some securities have risen in price beyond all reason...and where caution seems radical and risk-taking the prudent course.”

Mr Klarman is right that investors are currently enthusiastic buyers of corporate debt, which offers at least some yield in a world of very low short-term interest rates. In the week to March 5th investment-grade bond funds received inflows of \$1.8 billion and junk-bond funds had inflows of \$1.1 billion, according to Bank of America Merrill Lynch.

Corporate borrowing costs are lower, relative to government debt, than at any time since 2007. The excess interest rate, or spread, paid by issuers of speculative bonds dropped to 3.6 percentage points in early March, according to Barclays. Historically, issuers of new bonds have had to pay a premium, in the form of a higher interest rate, relative to bonds that are already trading in the market. In the past six months, this premium has fallen significantly, according to Stephen Dulake, a credit strategist at J.P. Morgan.

In addition, companies have a lot more flexibility when it comes to refinancing their debt. Most bonds have a “call” provision, allowing the issuer to redeem the issue, usually at a price above face value. These calls are most likely to be exercised when interest rates have fallen; companies can then refinance their debt more cheaply.

This is good for issuers but not so great for investors, skewing the risk-reward ra-

tio against them. If things go badly, and the credit quality of the issuer deteriorates, the price will fall; the call will not be exercised and investors will be stuck with an underperforming asset. But if things go well, the company will call the bond early and the investors’ gains will be limited. Hermes, a fund-management group, says the average call period on high-yield bonds in 2010 was 6.8 years; so far this year it has been 3.6.

Some companies have taken advantage by locking in low rates for long periods. Electricité de France, a power company, even managed to issue bonds with a 100-year maturity in January.

It may be surprising that companies are not issuing even more debt. So far in 2014 there has been \$595 billion of investment-grade issuance and \$82 billion of speculative issuance, according to Dealogic, down from \$616 billion and \$107 billion respectively at the same stage of 2013. But perhaps companies do not need the money. Low rates have been around for so long that those with debts have already managed to refinance them. And lots of companies have no debt at all. A 2013 study by Deloitte, an accountancy firm, found that

non-financial companies had a global cash pile of \$2.8 trillion.

That is part of the reason why Mr Klarman’s fears may not be realised immediately. For the market to collapse, one of two things needs to happen: either the fundamentals need to deteriorate sharply or a group of investors have to turn into forced sellers, usually because they have borrowed too much.

In terms of fundamentals, the debt markets could plunge because of a sudden change in monetary policy (linked to a rise in inflation) or because the economy deteriorates so that companies start defaulting in droves. There is little sign of either happening in 2014. Inflation is low in the rich world and, through forward guidance, central banks have indicated that they have no desire to raise rates.

Meanwhile the default rate on all corporate debt was just 1.4% last year, according to Moody’s, a ratings agency; the default rate on speculative, or junk, bonds was only 2.9%. That compares with a long-term average of 4.7% and a peak, after the collapse of Lehman Brothers, of 13.9%. Thanks to a recovering global economy, Moody’s predicts a default rate for junk bonds of 2.2% this year.

As for the people who are buying the debt, they seem more solid than the kind of specialist vehicles that dominated the market in 2006 and 2007. Banks are also less exposed to corporate debt. Goldman Sachs says the finance sector’s commitments to leveraged buy-outs are a fraction of the roughly \$400 billion that weighed down balance-sheets back in 2008.

None of this is to say that Mr Klarman will not be proved right in the long run. But we may have to wait a little while to see the top of the market.





## Herbalife

# The House of Cards put

NEW YORK

Activist investing meets activist government

UNCLE SAM has gone where Bill Ackman's fellow billionaires declined to go—and given the activist investor a boost he badly needed. In December 2012 the boss of Pershing Square, a hedge fund, announced a \$1 billion bet that Herbalife would go bust, based on his belief that the dietary-supplement firm runs an illegal pyramid-selling scheme. Since then Herbalife's shares had crept higher, thanks not least to buying by tycoons such as Carl Icahn, George Soros and Dan Loeb. But on March 12th the share price tumbled when Herbalife announced it is being investigated by the Federal Trade Commission (FTC).

This will raise Mr Ackman's hopes of eventual vindication for his belief that Herbalife's "multi-level marketing" system is in essence a shake-down of the people on the bottom layer (the company strongly denies this, and just about everything else Mr Ackman has said about it). But it will also add to the concerns of critics of Mr Ackman, who fear he is creating a new form of political power by combining two of the things the American public most hates about wealthy folk: short-selling and state-of-the-art lobbying.

His bet against Herbalife is a classic short, selling borrowed shares that will have to be repurchased later (at a lower price, Mr Ackman hopes) to return them to their owners. As for the lobbying, on March 9th the New York Times ran a long, sniffy article which tracked down people who claimed to have suffered financial losses at Herbalife's hands and whose stories Mr Ackman has bundled up to present to Congress.

Short-selling generally does not deserve its bad rap. Often it helps to prevent damaging financial bubbles by providing a reality check on an irrationally exuberant market. Arguably, reinforcing shorting with well-executed lobbying should not make it more unacceptable, merely more effective. It is not as if the shorter has all the firepower. Mr Ackman is said to have spent over \$264,000 on his Herbalife campaign, but the company's federal-lobbying budget in 2013 was over seven times that.

Mr Ackman has talked of a moral crusade against Herbalife and promised to give away any personal profits from the trade to charity. His critics see him simply as a greedy billionaire who is now exploiting America's newly laissez-faire attitude to political spending in pursuit of a big financial payday. There is no reason to think

## A pyramid?

he has undue influence at the FTC. Even if, despite the company's denials, Mr Ackman were to provide convincing proof that Herbalife sells snake oil to gullible immigrants, that might not demonstrate conclusively that it has acted illegally. The laws governing pyramid schemes and multi-layer marketing are notoriously fuzzy. Nor might any punishment be severe enough to close the business.

What if the FTC investigation were to find grounds to drive Herbalife into bankruptcy, as Mr Ackman hopes? Would the public treat him as a hero, who took a big risk to stop the exploitation of vulnerable people? Or would they merely view his success as evidence that he had become a "House of Cards" style billionaire with too much power in Washington? ■

## Whistleblowers

# A \$64m question

NEW YORK

A new sort of investment coup

IT IS still possible for the little guy to make a fortune on Wall Street. Keith Edwards had a miserable five-year run at JPMorgan Chase before being sacked in 2008. His title, assistant vice-president, straddles the lowest ranks of management and for much of his tenure, according to court documents, his supervisors were displeased with his work and ignored his suggestions.

Although this would normally not be a formula for financial success, recent years have not been entirely normal. On March 7th, in a filing with a federal court in Manhattan, it was disclosed that Mr Edwards would receive \$63,870,000 because of his

role as a "relator" of key facts leading to JPMorgan paying \$614m to settle violations of the False Claims Act, a statute designed to protect the government from fraud.

Neither the formula used to determine the overall settlement nor the one used to determine Mr Edwards's share of it was disclosed. He may even be aggrieved he did not get more, given that informers often receive in excess of 15%. But others may be luckier: Mr Edwards's lawyer, David Wasinger, is now in the final phase of another whistleblower case that led to a guilty verdict in October for mortgage fraud against Bank of America. The government is seeking \$2.1 billion in penalties. Mr Wasinger's client could be in line to receive hundreds of millions of dollars as his part of the settlement (Bank of America is arguing that a more reasonable number would be zero).

The largest impact of the Edwards settlement could be to open up the area to more cases, with the payout inspiring both employees and plaintiff law firms, says Anthony Casey, a professor at University of Chicago Law School. The time lag since the financial crisis would ordinarily curtail many legal actions, but the normal limitations are suspended while America is at war, which has been true since the invasion of Afghanistan in 2001.

Making a false-claims case requires the direct involvement of the government in the business. There has been no shortage of that in the housing market, where various federal agencies provide insurance against borrower default. The Edwards cases revolved around mortgages issued by JPMorgan that were guaranteed by the Department of Housing and Urban Development through the Federal Housing Authority (FHA), and by the Department of Veterans Affairs. Thanks to this government backing, the mortgages could carry a lower interest rate than would have been demanded in private markets, given the riskiness of the borrowers.

One-third of all new mortgages were covered by the FHA alone, according to the complaint. Banks would originate these mortgages and certify their appropriateness for insurance, and then provide documentation to the responsible government agencies. The Justice Department argued that the data it received were flawed, and had been for more than a decade. Mr Edwards helped its case by supplying observations drawn from his tenure.

The intention of mortgage insurance was to provide credit to vast numbers of people at terms a private market would find unreasonable. The result was a system overseen badly for years by public bureaucracies. Ideally, this system would have been on trial along with JPMorgan. Instead, the message of Mr Edwards's experience is that the larger the failure, the larger the payday. ■



## China's economy

## An alternative view

HONG KONG

China's official figures both understate and overstate inflation

IS CHINA'S economy underheating? Not long ago, many people would have scoffed at the suggestion. The country is known for searing property prices, hot-money inflows and the steam escaping from its financial furnaces. The stock of outstanding credit, broadly defined, climbed to over 180% of GDP at the end of 2013, according to the central bank, and over 215%, according to an even broader measure by Fitch, a ratings agency.

But house prices are slowing, exports are weak and shadow banking is losing ground to traditional lending. Forecasters expected industrial output to grow by 9.5% in the first two months of 2014, compared with a year earlier; it grew by only 8.6%.

Moreover, evidence of excess has long been absent from the traditional measure of economic overheating: inflation. New figures suggest that consumer prices rose by only 2% in the year to February, well below China's average inflation of over 3% in the past decade. The prices paid to producers fell, again.

One way to reconcile the inflation number with other signs of excess is to disbelieve it. China's critics routinely argue that inflation is higher than the government's statisticians claim. But although it is easy to say the official figures are bad, it is difficult to quantify how bad.

That is the tricky task that Emi Nakamura, Jón Steinsson and Miao Liu of Columbia University set themselves in a recent study. They start with an economic law first observed by a 19th-century statistician, Ernst Engel: richer households spend a smaller share of their income on food. Thus as a household becomes richer over time, its spending pattern should match that of households who were equally rich a year or two before.

But in China, they discovered something different. They compared urban households in 2006 with households that were, according to the official figures, equally rich in 2008. They discovered that the later households were devoting 3-4% more of their budgets to food. Perhaps they were not quite as rich as their 2006 counterparts, after all.

The reason is that the cost of living rose faster in the intervening years than official figures suggested—much faster. The economists believe true inflation may have been as high as 20% in 2007 and 18% in 2008, compared with official figures of 4.8% and 5.9% (see chart). This dramatic increase in

## China's banking

## March of the banks

SHANGHAI

Financial liberalisation moves ahead in China

“OUR banks earn profit too easily. Why? Because a small number of large banks have a monopoly.” So declared Wen Jiabao, China's former prime minister, two years ago. He went on to say that the only solution was to allow more private capital in banking.

That seemed unlikely to happen soon, given the firm grip the government has had on banks in the country. The industry is tightly regulated, with deposit interest rates controlled by the authorities and all bank savings enjoying the implicit backing of the state. The biggest Chinese banks, which also happen to be the largest in the world, are all state-run.

Undaunted, the newish government of President Xi Jinping vowed to push ahead with financial liberalisation. This week it did just that. On March 11th regulators approved a pilot scheme to allow five privately owned banks to be set up in various parts of the country. The new banks will be regulated much as existing lenders are, but will be required to have clear provisions for orderly dismantlement in case of bankruptcy.

By welcoming more private capital, officials are hoping to inject competition and innovation into China's sclerotic banking sector. The aim is for these new

banks to target small and medium-sized enterprises, long starved of capital by the state-run banks (keener to lend to state-owned enterprises). Two giant Chinese internet firms, Tencent and Alibaba, are among the chosen investors. That suggests the authorities are taking a favourable view of the forays the two firms have made into internet finance.

Boosters of liberalisation were also cheered this week by the prospect of the country freeing interest rates. China's long-standing policy of financial repression has involved a strict cap on the rates earned by bank deposits. So ordinary folk have ended up subsidising loans made by state banks to favoured state-run groups.

Happily, this policy looks set to change, too. Zhou Xiaochuan, the head of China's central bank, said this week that deposit rates will be liberalised within two years. This comes on the heels of an official pledge to introduce a deposit-insurance scheme this year.

China's leaders were so worried about the risks of liberalising too quickly that the pace of reform has often seemed glacial. No longer. Its banking sector is now opening up faster than the critics thought possible. Hold on to your hats.

the cost of living partly reflects a spike in pork prices after an outbreak of disease fattened the price of hogs by about 60%.

Did the government simply lie about this price pressure? Possibly. But if so, its rationale is not clear. Understating inflation does not suppress the discontent it causes. The public pays more attention to the price of pork in the market than to data from the National Bureau of Statistics.

Moreover, it turns out that China's official figures do not always understate infla-

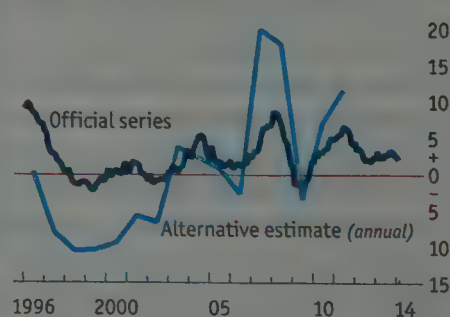
tion. From 1996 to 2006, they actually exaggerated it in every year but one, according to the same method. As a result, urban consumption was growing even faster in this period than the official statistics conveyed. China's policymakers had more to boast about than they knew.

The inflation figures calculated by the three economists are also remarkably well correlated with the official numbers. They rise and fall in unison. It is just that the unofficial figures rise faster and fall further. The trio conjecture that two competing biases are at work. First, new goods are often of higher quality than the ones they replace, but their price is the same. That would explain why China overstated inflation before 2007. More subtly, statisticians sometimes fail to grasp that new goods are merely upgrades of existing ones. So they invent new categories; that biases inflation towards zero. As a consequence, China's official figures “present a smoothed version of reality,” the authors write.

Those numbers do not, then, reveal the whole truth about China's economy, as the cynics point out. But their shortcomings are not simply statistical flattery. They are closer to statistical smooth-talk. ■

## The rough and the smooth

China's consumer prices  
% change on previous year



Sources: Haver Analytics; Jón Steinsson, Emi Nakamura & Miao Liu, Columbia University



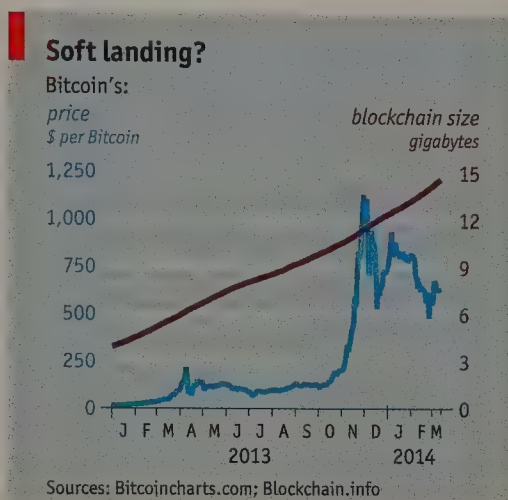
## Currency could become the internet of money

en found in time for l. That would appear of affairs in the land of currency, if recent press believed. On March 6th that it had tracked noto, Bitcoin's elusive h 11th Mt Gox, the Jap-ange that had long in the currency before tomers' Bitcoins at to-ore filed for bankrupt- ne in America.

re rather different. Evi- at Dorian Satoshi Na- wsweek identified as t the relevant Satoshi. tcoin's best days may F not as a fully fledged story), then as a plat- novation. Much as the on for digital services, nd Bitcoin could sup- the way people own Geeks of all sorts are ading a growing num- talists, who know a they see one.

ne enthusiasm in this helps to think about a he early 20th century n island in the Pacific one disks (pictured) as ases, such as a daugh- ery heavy, they were spent. Instead, they ers. Every transaction ral history of owner- islanders to know the one and made it diffi- e stone twice.

t move around when They are best under- a giant ledger, the contains the transac- Bitcoin in circulation. with the help of cryp- us computing power, l network of tens of ters. Again, openness ain secure: the block- very participant can nsfer comes from the



item is not copied or, in the case of money, spent more than once? And Bitcoin does the trick while being open (unlike conventional payment mechanisms, which aim for security by shielding themselves from outsiders). This means that third parties can make use of Bitcoin's features without having to ask anyone for permission—as is the case with the internet.

Such “permissionless innovation”, in the jargon, should in time result in a cornucopia of applications. Bitcoin's technology could be used to transfer ownership both in other currencies and of any kind of financial asset. This, in turn, would allow the creation of decentralised exchanges which let asset holders trade directly. And money could be “programmed” to come with conditions: for instance, it might be released only if a third person agrees.

Some want ownership of devices—a

aging ownership of and access to physical assets much easier: the token could be rented out temporarily, enabling flexible peer-to-peer car-rental schemes. “smart property” would turn the blockchain into a global registry of owners of physical assets.

All that may sound like science fiction, but a growing number of startups are working on bringing such applications to market. Coloured Coins and Mastercoin will soon release software that enable trade in other financial assets, including stocks and bonds. The most ambitious project is Ethereum: it will launch a new blockchain, similar but unrelated to Bitcoin, with a programming language to encode financial instruments and other contracts.

Although banks have mostly stayed clear of Bitcoin as a currency, they too have started exploring how they could use blockchain technology in other ways. They are unlikely to move fast, but there are plenty of possibilities. Global banks could, for instance, use Bitcoin-like systems to move money between subsidiaries. They could even issue their own crypto-currencies.

But turning Bitcoin into a platform comes with risks. Some geeks fret that the network will reach its maximum capacity of 300,000 transactions per day as new applications come online. Another worry is that as the blockchain, which has already trebled in size to 15 gigabytes over the year (see chart), continues to grow, fewer of the network's participants will store it.

Yet if history is any guide, the blockchain will be fine. Two decades ago, millions went online after the invention of the web browser, pundits predicted the internet's collapse. Technical fixes eventually saved the day. And even if Bitcoin were to break down, another similar system would most likely take its place.





# Free exchange | Money from nothing

Chronic deflation may keep Bitcoin from displacing its fiat rivals



**B**ITCOIN, to its most ardent fans, is more than a useful way to pay for drugs. It is also a technological marvel that could disrupt much of the consumer-finance industry. But is it money? The Bitcoin economy keeps growing, despite the periodic disappearance of large quantities of currency in hacker heists. The total value of Bitcoins in circulation has risen to \$7.9 billion, from just \$490m a year ago, while daily transaction volume is up by almost 60%. If Bitcoin aspires to match dollars and euros for money-ness, it will need to be more than just a Mastercard for nerds.

Economists reckon money is anything that serves three main functions. It must be a “medium of exchange”, which can reliably be swapped for goods and services. It should be a stable store of value, enabling users to tuck some away and come back later to find its purchasing power more or less intact. And it should function as a unit of account: a statistical yardstick against which value in an economy is measured. The American dollar meets all three conditions. Bitcoin has some way to go.

Bitcoin does best as a medium of exchange, thanks to its clever technical design (see previous article). Users can quickly move holdings around anywhere in the world. Rather than relying on central clearing-houses, verification of transactions is done by “miners”, who are compensated for their work with newly created Bitcoin. The new money they create adds imperceptibly to Bitcoin inflation, spreading the cost of their work over all users.

This elegant system makes Bitcoin cheap to use. Because banks are not needed to confirm legitimate purchases, transaction fees are low. Bitcoin’s near-anonymity has also helped drive acceptance among those who would prefer to keep their transactions secret, whether drug-dealers or money-launderers. The combination of functionality and user interest means that people are finding it easier to swap coins for both goods and services and for other currencies. This rising credibility as a medium of exchange supports Bitcoin values.

Yet Bitcoin is not exactly a stable store of value. It is technically equipped to do the job: coins saved in an encrypted wallet on a hard drive can be retrieved for later use in purchases. But the currency’s worth is prone to wild gyrations. Massive Bitcoin heists, like the recent plunder of roughly 6% of outstanding Bitcoins from the Mt Gox exchange, reduce confidence in the currency. Bitcoin

prices dropped by 30% against the dollar in February due in part to the Mt Gox news. In more bullish moments, interest has attracted speculators, sending values soaring—at least temporarily. Cameron and Tyler Winklevoss, twin brothers known mainly for their early quasi-interest in Facebook, recently announced plans to launch a Bitcoin tracking fund; to make it easier for amateur investors to take a punt on the technology.

Volatile values could prevent Bitcoin from ever establishing itself as a medium of account. Even the few retailers who accept Bitcoin use other currencies as their principal accounting unit. Prices are given in a prominent currency (us dollars, for instance) and the Bitcoin price fluctuates automatically with changes in the crypto-money’s exchange rate. Similarly, most Bitcoin owners work in jobs with wages paid in traditional currencies. So long as Bitcoin buyers and sellers “think” in euros or dollars it will fall short of money status. And until Bitcoin values are less volatile relative to the currencies that now dominate real economies, users are unlikely to change their monetary frame of reference.

That may be for the best, given another Bitcoin quirk. The currency’s “money supply” will eventually be capped at 21m units. To Bitcoin’s libertarian disciples, that is a neat way to preclude the inflationary central-bank meddling to which most currencies are prone. Yet modern central banks favour low but positive inflation for good reason. In the real world wages are “sticky”: firms find it difficult to cut their employees’ pay. A modicum of inflation greases the system by, in effect, cutting the wages of workers whose pay cheques fail to keep pace with inflation. If the money supply grows too slowly, then prices fall and workers with sticky wages become more costly. Unemployment tends to rise as a result. If employed workers hoard cash in expectation of further price reductions, the downturn gathers momentum.

Bitcoin’s money supply is still growing; its miners are just over halfway to producing the total possible number. New coins will be minted until around 2030. Miners may then introduce transaction fees as compensation for their critical verification work. More worryingly, deflation is already a reality. Soaring demand for the currency is partly responsible for boosting its price (therefore reducing the price of everything else in Bitcoin terms, generating deflation). But the knowledge that supply is ultimately finite is also a factor.

## Digital fetters

That other currencies remain the medium of account has so far been the Bitcoin economy’s saving grace. If Bitcoin matured into a complete currency, with large numbers of workers using it as their medium of account, then its inflexibility could bring economic havoc. Money-supply “shocks”, like the disappearance of Mt Gox, could set off a systemic collapse. Given a loss of faith in exchanges, users might withdraw their coins in a panic, leading to a dangerous decline in transaction volume. Such hoarding could threaten Bitcoin’s status as a medium of exchange, leading to its complete demise as a currency.

Reputable exchanges with large institutional holdings could help stem such panics by advertising a willingness to sell their Bitcoins to meet liquidity demand. Yet because Bitcoin reserves are finite, users may not find the promise credible. By contrast, central banks with the inexhaustible resources of the printing press face no such inconvenient constraints. ■





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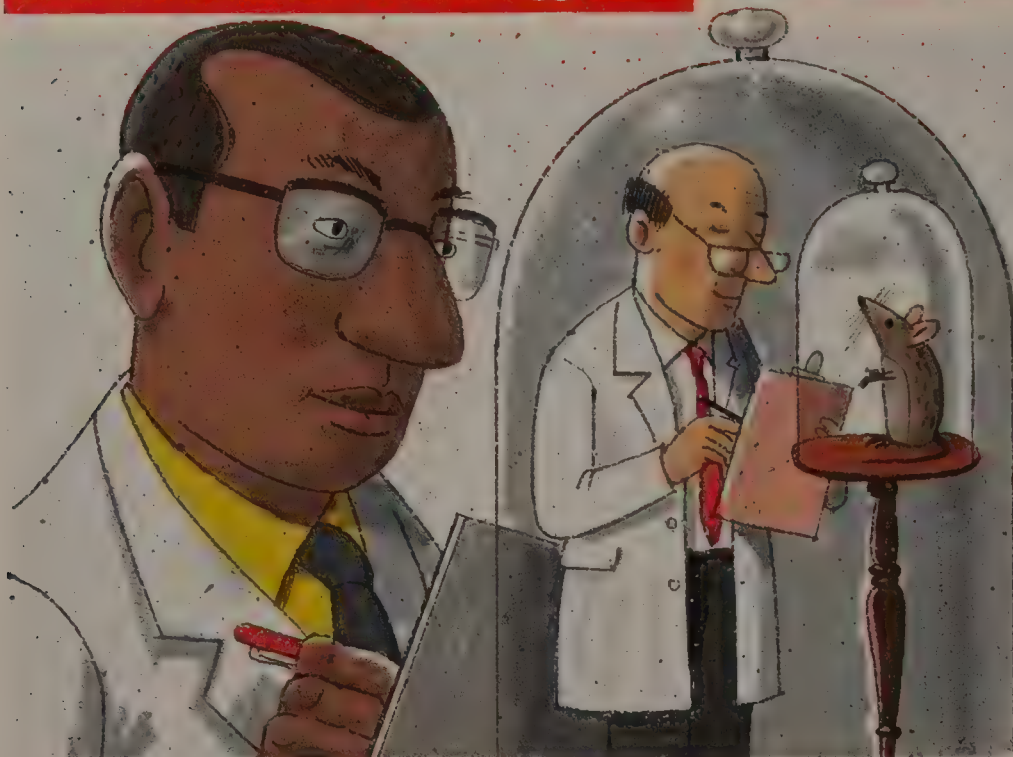
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## Combating bad science

## Metaphysicians

Sloppy researchers beware. A new institute has you in its sights

**“W**HY most published research findings are false” is not, as the title of an academic paper, likely to win friends in the ivory tower. But it has certainly influenced people (including journalists at *The Economist*). The paper it introduced was published in 2005 by John Ioannidis, an epidemiologist who was then at the University of Ioannina, in Greece, and is now at Stanford. It exposed the ways, most notably the overinterpreting of statistical significance in studies with small sample sizes, that scientific findings can end up being irreproducible—or, as a layman might put it, wrong.

Dr Ioannidis has been waging war on sloppy science ever since, helping to develop a discipline called meta-research (ie, research about research). Later this month that battle will be institutionalised, with the launch of the Meta-Research Innovation Centre at Stanford.

METRICS, as the new laboratory is to be known for short, will connect enthusiasts of the nascent field in such corners of academia as medicine, statistics and epidemiology, with the aim of solidifying the young discipline. Dr Ioannidis and the lab’s co-founder, Steven Goodman, will (for this is, after all, science) organise conferences at which acolytes can meet in the world of atoms, rather than just online. They will create a “journal watch” to monitor scientific publishers’ work and to

shame laggards into better behaviour. And they will spread the message to policy-makers, governments and other interested parties, in an effort to stop them making decisions on the basis of flaky studies. All this in the name of the centre’s nerdishly valiant mission statement: “Identifying and minimising persistent threats to medical-research quality.”

### The METRICS system

Irreproducibility is one such threat—so much so that there is an (admittedly tongue-in-cheek) publication called the *Journal of Irreproducible Results*. Some fields are making progress, though. In psychology, the Many Labs Replication Project, supported by the Centre for Open Science, an institute of the University of Virginia, has re-run 13 experiments about widely accepted theories. Only ten were validated. The centre has also launched what it calls the Cancer Biology Reproducibility Project, to look at 50 recent oncology studies.

Until now, however, according to Dr Ioannidis, no one has tried to find out whether such attempts at revalidation have actually had any impact on the credibility of research. METRICS will try to do this, and will make recommendations about how future work might be improved and better co-ordinated—for the study of reproducibility should, like any branch of science, be based on evidence of what

works and what does not.

Wasted effort is another scourge of science that the lab will look into. A recent series of articles in the *Lancet* noted that, in 2010, about \$200 billion (an astonishing 85% of the world’s spending on medical research) was squandered on studies that were flawed in their design, redundant, never published or poorly reported. METRICS will support efforts to tackle this extraordinary inefficiency, and will itself update research about the extent to which randomised-controlled trials acknowledge the existence of previous investigations of the same subject. If the situation has not improved, METRICS and its collaborators will try to design new publishing practices that discourage bad behaviour among scientists.

There is also Dr Ioannidis’s pet offender: publication bias. Not all studies that are conducted get published, and the ones which do tend to be those that have significant results. That leaves a skewed impression of the evidence.

Researchers have been studying publication bias for years, using various statistical tests. Again, though, there has been little reflection on these methods and their comparative effectiveness. They may, according to Dr Ioannidis, be giving both false negatives and false positives about whether or not publication bias exists in a particular body of studies.

Dr Ioannidis plans to run tests on the methods of meta-research itself, to make sure he and his colleagues do not fall foul of the very criticisms they make of others. “I don’t want”, he says, “to take for granted any type of meta-research is ideal and efficient and nice. I don’t want to promise that we can change the world, although this is probably what everybody has to promise to get funded nowadays.” ■



## Diagnosing dementia

## This is not spinal tap

A new test for Alzheimer's may be on the cards. But it is not here yet

AS JOHN IOANNIDIS prepares to launch an institute intended, among other things, to combat small, statistically underpowered scientific studies (see previous article), just such a study has hit the headlines. The media reaction to it neatly illustrates what Dr Ioannidis is talking about, for the impression given by those headlines is that researchers have found a way to predict Alzheimer's disease. At the moment, that cannot be done reliably, though a brain scan or a spinal tap can confirm suspicions. And the researchers have not—at least, not yet—found a test, for their results were based on data from a handful of people in what may be an unrepresentative sample of humanity.

But the new study also illustrates the need not to throw the baby of understanding out with the bathwater of rigour. Though it is small, if its conclusions are upheld by subsequent work it may help explain what is going on in Alzheimer's disease. It may even lead to a test that really does work. And that would have implications for the search for a treatment.

Alzheimer's disease, an ailment that wrecks people's brains (see picture below, of a healthy and an afflicted brain), affects 35m people—a number expected to increase to 115m by 2050. It is incurable. It is also hard to detect until a sufferer's behaviour begins to change and he starts to lose his memory, by which time a lot of damage has already been done to his brain.

In the short term, a simple way of finding out whose brains are starting to head in the direction of Alzheimer's would help

scientific understanding of the pre-symptomatic phase of the disease. In the longer run, and from a patient's point of view, early intervention with any drug that might one day be found to work will be better than waiting until his brain is so badly harmed that his memory starts going and his behaviour changes.

What Howard Federoff, of Georgetown University Medical Centre in Washington, DC, has done is to provide the basis from which such a test might be developed. His research, just published in *Nature Medicine*, identified ten molecules whose concentrations in the blood, taken together, predicted with 90% confidence whether someone in the group he studied went on to develop symptoms of Alzheimer's within the next three years.

He and his colleagues started with 525 volunteers aged 70 or older, from whom they took blood samples. Three years later they looked at 18 of them who had had no symptoms when the study began, but had subsequently developed some, and compared their original blood samples with those of apparently similar volunteers who had remained unaffected.

Compared with those in the control group, they found, the 18 had lower levels of ten particular molecules. This retrospective coincidence could, of course, have been just that—a coincidence. So they repeated the analysis with 10 more of the original volunteers who had been symptom-free and then developed symptoms. They got the same result.

This strengthened the hypothesis that

levels of the ten molecules really do predict Alzheimer's. It still needs to be confirmed by bigger studies, but if the pattern holds, and particularly if it holds in other ethnic groups (most of the 525 were white Americans) and in other countries, a test might be on the cards. This would let researchers conduct drug trials on those who were asymptomatic, and therefore search for a way not merely to treat Alzheimer's disease, but to prevent its manifestation.

The molecules in question may also help illuminate what is happening in the early stages of Alzheimer's. They are all phospholipids, which are components of cell membranes. Why Alzheimer's should reduce phospholipid levels in the blood is unclear, but those levels might easily reflect problems in the membranes of the affected brain cells.

An interesting result, then, which—as is true of a lot of science—might or might not go on to become important. Not wasting effort on small, underpowered studies is a laudable aim. But it is not always clear in advance which work will vanish into the morass and which will act as a spur to further investigation. ■

## Gambling and the brain

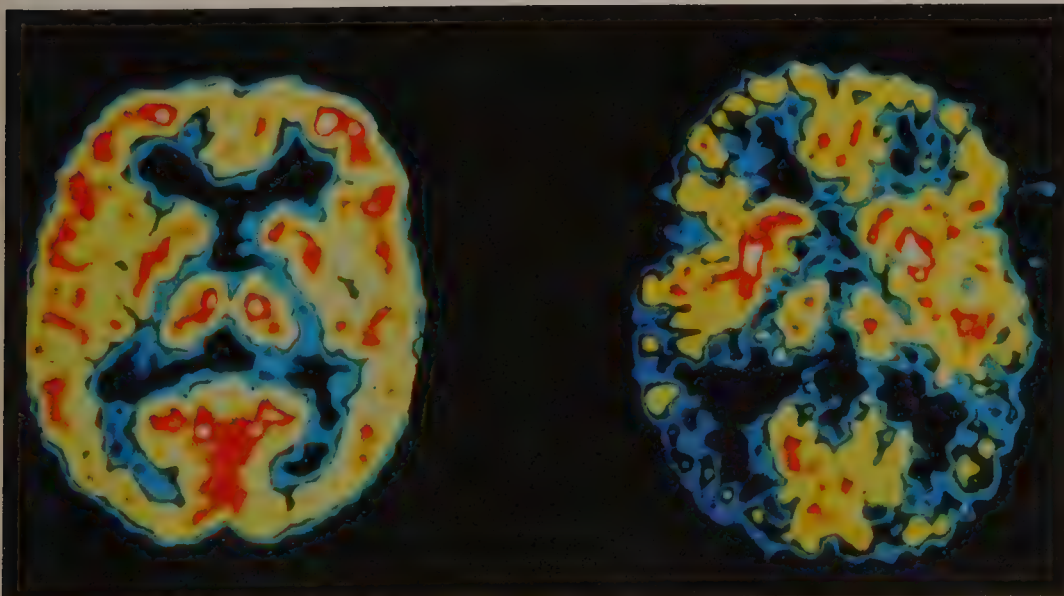
## Slotting in an explanation

A neural seat of compulsive gambling may have been found

POKER, though luck is useful when playing it, is essentially a game of skill. Even betting on the horses means assessing the animals' form and the track's going. But people who put money into slot machines might just as well stand there burning banknotes. Not for nothing were they once known as one-armed bandits. They mindlessly apply the laws of statistics to confiscate a pre-arranged proportion (usually about 10%) of the money put into them.

Well, not quite mindlessly. For it is possible, while staying within the realm of randomness for the appearance of any given symbol in any given place in the payout row, to tweak things so that "near wins" of two out of three symbols appear quite often. The peculiarities of human psychology are such that some people (a sufficient number, from the house's point of view) are so pepped by "almost" winning that they are stimulated to carry on playing.

That has been known from behavioural studies for a while. But Simon Dymond of Swansea University, in Britain, wanted to probe more deeply, and has done so, in a study published in *NeuroImage*, using scanning to explore how the brains of the hooked and the unhooked respond to "al- ▶▶



Memory holes





Clueless

► most" beating the bandit.

Dr Dymond and his colleagues compared those brains using two techniques. One was functional magnetic-resonance imaging (fMRI), which shows which parts of the organ are especially active at any given moment. The other was magnetoencephalography (MEG), which measures the electrical nature of that activity. Together, fMRI and MEG enabled them to build a map of each volunteer's brain as he played on a simulated electronic slot machine.

The team's particular focus was on a volunteer's theta response: his brain's electrical activity in the 4-7Hz range. This has previously been identified as being related to the processing of the experiences of winning and losing—not only in gambling, but in life more generally.

As expected, all volunteers showed high theta responses to wins and low ones to losses. Responses to near wins followed this pattern, but with one exception. They registered similarly in the brains of both pathological gamblers (those addicted to playing slot machines) and non-gamblers, except in part of the brain called the right orbitofrontal cortex. This is significant because that part of the brain has been shown, by other studies, to be involved in the processing of rewards.

Pathological gamblers, Dr Dymond and his team discovered, display similar increases in theta activity in the right orbitofrontal cortex whether they win or "nearly win": spikes of about 32% and 27% respectively in the strengths of their theta waves. Non-gamblers display the same sort of theta response when they win, but only a 13% increase when they "nearly win".

Though this discovery is of little immediate use in dealing with the problem of pathological gambling, it does help illuminate what is going on. Theta waves are only a reflection of underlying neurological processes. But they might be used to monitor the effects, and effectiveness, of attempts to break whatever habits of mind it is that are bringing misery to the millions around the world for whom a little flutter becomes something far bigger. ■

## Elephants

# Know your enemy

Pachyderms are even cannier than zoologists previously realised

ELEPHANTS in Africa have been dealing with people since people existed, for the first humans evolved in that part of the world 2m years ago. And they have been dealing with honeybees even longer—for those insects, which also evolved in Africa, have been around for at least 35m years. People and bees are more or less the only animals a full-grown elephant is scared of, so looking at the nuances of how they react to them is intriguing. Two papers published this week do just this. They show that elephants can recognise the languages of ethnic groups likely to be hostile to them, and of those which are not, and also that the beasts are able to warn each other about bees in a different way from the one they use to warn each other about people.

The Masai, Kenyans who often make their livings as herders, have a long history of spearing elephants because elephants compete with them—or, rather, with their cattle—for water holes and grazing. However, the Masai's neighbours, the agriculturally inclined Kamba, rarely kill elephants. And elephants can tell the difference. They recognise Masai and Kamba both by appearance and by smell. A team led by Karen McComb and Graeme Shannon at the University of Sussex, in Britain, wondered if they might be able to distinguish the groups' languages as well.

To find out, Dr McComb and Dr Shannon recorded Masai and Kamba men as they calmly said, "Look, look over there, a group of elephants is coming." They then played the recordings to 48 groups of elephants to see what happened. They have just published the results in the *Proceedings*

of the National Academy of Sciences.

When elephants heard the Masai, they sniffed around for danger 70% of the time and retreated or gathered together in protective bunches 60% of the time. When they heard the Kamba they sniffed only 25% of the time and retreated or bunched a mere 40% of the time. Moreover, in the case of the Masai, at least, it was male voices that were the most frightening. When the two researchers repeated their experiment with recordings of Masai women and children, the elephants tended to ignore them.

The alarm-call study was carried out by Joseph Soltis and Anne Savage, biologists at Disney's Animal Kingdom, in Florida, which, besides being a place of entertainment, has a research arm. They were also working in Kenya, in an area inhabited by the Samburu, who are, like the Masai, herders, and thus just about as popular with elephants, and vice versa.

Both Samburu and bees cause elephants to make deep rumbling sounds that can travel for miles, and serve to inform other elephants that trouble is around. Dr Soltis and Dr Savage found, as they describe in *PLOS ONE*, that these rumbles are different. Elephants rumble at 33Hz when they hear bees (the researchers used tape recordings, rather than releasing actual bee swarms) and at 39Hz when they hear Samburu. They also shake their heads when they are rumbling at bees, but not when they are rumbling at Samburu. Whether that is part of a bee-specific warning to their neighbours, or merely a pre-emptive attempt to drive away the annoying insects, no one knows. ■



Don't talk to us in that tone of voice





## Entrepreneurship

## The art of the struggle

A new book about startups should be required reading for business-builders everywhere

THESE are halcyon days in Silicon Valley and other hives of entrepreneurship around the world. Barely a week goes by without some newly minted billionaire hitting the headlines and some bizarrely named young company getting an eye-wateringly high valuation from financiers. But for every starry success there will be a multitude of failures, and it is easy to forget that the job of an entrepreneur is often nasty, brutish and in danger of being cut short by impatient investors, rebellious co-founders and other hazards.

Nobody knows this better than Ben Horowitz. One of the Valley's most prominent venture capitalists, Mr Horowitz was previously the chief executive of a prominent startup and personally experienced what he dubs "the Struggle". This is the terror that strikes young bosses when their beautifully crafted business plans are shredded by aggressive competitors or a lousy economy. Short of new ideas, cash and confidence, many young leaders throw in the towel rather than battle on.

Mr Horowitz thinks that this is a waste and that, if they were given better advice, more entrepreneurs could turn things round and go on to build great companies. The problem is that too many management books and courses focus on telling people what they should do right, but rarely offer any detail about how to rebound when they inevitably screw up. And the advice they give about what to do right is

**The Hard Thing About Hard Things: Building a Business When There Are No Easy Answers.** By Ben Horowitz. *Harper Business*; 289 pages; \$29.99

sometimes badly wrong.

For a number of years, Mr Horowitz has written a popular blog in which he offers opinions on how to manage businesses in posts sprinkled with lyrics taken from songs by rappers and hip-hop artists such as Jay-Z, Drake and Kanye West. Plenty of the topics that he covers in "The Hard Thing About Hard Things" were aired there first, and the book assembles them into a handy compendium.

But what makes it a compelling read is its first few chapters, where Mr Horowitz provides a blow-by-blow account of his own struggle as the boss of Loudcloud, a cloud-computing firm that he created with several people including Marc Andreessen, who is now his partner in the venture firm Andreessen Horowitz. Loudcloud launches just before the dot-com bubble bursts in 2000, leaving its leaders scrambling to keep it afloat as boom turns to bust.

Mr Horowitz remains upbeat in public as the company loses some big customers and misses shipping dates. Belatedly, he realises he is only making matters worse because his sunny demeanour discourages workers from being frank about the startup's problems and hunting for solutions to

them. His financial controller recommends being forthright with investors as well as staff. "If you are going to eat shit, don't nibble," he says, in a phrase that should be immortalised in corporate-finance textbooks.

Desperate for fresh capital, Mr Horowitz manages to take Loudcloud public, only to see its prospects darken again in the aftermath of the 2001 terrorist attacks in America. The firm's largest competitor, which was worth \$50 billion just over a year earlier, goes bankrupt, adding to the gloom. And its largest customer, Atriax, an online foreign-currency exchange, collapses too.

Determined to save his company, Mr Horowitz sells some assets to EDS, a tech behemoth, but keeps the software that automates the tasks of running a computing cloud. This becomes the heart of a re-named firm, Opsware, which prospers until a rival called BladeLogic starts pinching customers. Once again, Mr Horowitz finds himself in "wartime" mode and drives his team harder than ever to repel BladeLogic's challenge. There is no silver bullet: instead Opsware matches and then beats BladeLogic's offerings one by one. This works, and Opsware goes on to be bought by Hewlett-Packard for \$1.65 billion.

Throughout all this, Mr Horowitz learns plenty of lessons about managing a company, which he proceeds to recount in the rest of the book. These range from what is the most important skill of a successful CEO ("the ability to focus and to make the best move when there are no good moves") to whether startups should devote precious time and money to staff training (yes, because one of the main reasons great people leave jobs is that they feel they are not learning anything).

The book has other noteworthy recommendations, such as the importance of cre-

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ating a company culture through specific behaviours. At Andreessen Horowitz, for example, employees are fined \$10 a minute if they arrive late for meetings with visiting entrepreneurs. "We wanted the firm to respect the fact that in the bacon-and-egg breakfast of a startup," writes Mr Horowitz, "we were with the chicken and the entrepreneur was the pig: we were involved, but she was committed."

Not all his advice is compelling, but there is more than enough substance in Mr Horowitz's impressive tome to turn it into a leadership classic. And the lyrics he sprinkles through the book help drive his messages home. "I move onward, the only direction. Can't be scared to fail in search of perfection." Perhaps Jay-Z should be offered a guest lectureship at Stanford Business School. ■

### The South China Sea

## Troubled waters

**Asia's Cauldron: The South China Sea and the End to a Stable Pacific.** By Robert Kaplan. Random House; 225 pages; \$26 and £20

ASIA has enjoyed comparative stability in the chaotic years since the cold war. But the rise of China is now challenging that, as American dominance of the western Pacific fades. Comparisons of Asia to the Europe of 1914 are part of a bigger question about whether China just wants to be a benign regional hegemon, or if it has expansionist aims.

At the heart of the debate are the islands of the East and South China Seas, where China's behaviour seems to indicate its broader intentions. At first glance, it does not look good. China has increasingly em-

phasised its sovereignty over all islands within a "nine-dash line" stretching over the whole South China Sea. Its military budget grew this year by 12%. It has moved its main submarine base to Hainan island on the sea's northern edge, and it is beefing up its maritime enforcement agencies.

In "Asia's Cauldron" Robert Kaplan says the Pacific will become unstable, but he does not think this must lead to war. Mr Kaplan, who has found a niche writing books that are a cross between journalism and policy prescription, is sanguine about China's ambitions, claiming the region's rising power, "however truculent, is no Imperial Japan". He argues that comparisons to 1914 are overblown. The South China Sea is undoubtedly the Mitteleuropa of the 21st century, he says, but there is one big difference. "Europe is a landscape; East Asia a seascape", and the oceans will act as a barrier against aggression.

He suggests the better comparison is to America's 19th-century approach to the Caribbean. China is seeking an Asian version of the Monroe Doctrine, by which America took over from European nations as the supreme power in the western hemisphere. If China wants that role in the East, asks Mr Kaplan, why should it not have it? "American officials...must be prepared to allow, in some measure, for a rising Chinese navy to assume its rightful position, as the representative of the region's largest indigenous power."

Mr Kaplan's fascinating book is a welcome challenge to the pessimists who see only trouble in China's rise and the hawks who view it as malign. He says that China's power will grow whether America likes it or not, and that accommodating its rise, up to a point, is not capitulation. One reason he is sanguine is the absence of a great ideological struggle. It is all about power, he says, in a world "void of moral struggles". Many will point to the brutality of the Leninist Chinese party-state, but Mr

Kaplan insists that the Communist Party will not necessarily bully abroad because it bullies at home.

The author takes a pragmatic view of the politics of China's neighbours. He admires enlightened authoritarians such as the former leaders of Singapore and Malaysia, Lee Kuan Yew and Mahathir Mohamad. Again, he is to be praised for sticking to an unpopular viewpoint that should not be dismissed without discussion by Westerners. But he sometimes gets distracted by his obsession with geography, and the book also suffers from largely ignoring the East China Sea and the relationship with Japan, which could be much more important.

Though Mr Kaplan is trying to assuage fears, he admits that a more complicated Asia awaits, "a nervous world, crowded with warships and oil tankers". He may be too optimistic about China and enlightened authoritarianism, and China will not for a long time, if ever, replace America as the safeguarder of the global commons. Pax Sinica is still far beyond the horizon. ■

John Carey

## Reader, I read it

**The Unexpected Professor: An Oxford Life in Books.** By John Carey. Faber & Faber; 361 pages; £18.99

IN HIS blog, which is largely dedicated to the keeping of bees, John Carey, for 30 years a professor of English literature at Oxford, states that he writes to "stimulate and involve the general reader". This autobiography, written with sympathy, a light touch and a sardonic sense of humour, amply fulfils that aim. It suggests that this well-known book reviewer and author retains strong opinions and a love of controversy—writers who thought his reviews hurtful once formed an anti-Carey club—but also portrays a sensitive man dedicated to academic study and to reading. He admits that "courage matters more than understanding poetry" but, having read almost everything there is to read, he is unapologetic about trying to convey just what an enjoyable activity reading is.

Born and brought up in London, Mr Carey devoured books from an early age. After the *Beano*, the Biggles books and *Chums* magazine, the singing of hymns and the King James Bible, came the discovery of poetry—Keats, Arnold, Tennyson and Wordsworth. Grammar school and national service led to Oxford, a university that was very different from the one that students experience today. Whereas now they are welcomed with placards and bal-



We will fight on the beaches



loons, he was met by a gruff porter who told him the number of his room and bade him goodnight. There were old-style dons and much that he disapproved of, but he worked hard and thrived. His "aim was to learn, not to have fun...those two aims seldom coincide (a truth that might be made clearer to those starting out on education)".

Moving from college to college as he climbed the academic ladder, always within Oxford, Mr Carey, a specialist in Donne and Milton, helped to drag his department into the Victorian age and then into the 20th century. He wrote books on Dickens and Thackeray, thought George Eliot "by a long stretch the most intelligent of all English novelists", and considered Lawrence, Orwell and Conrad the best of more modern writers. Teaching was so enjoyable it felt "wrong to be paid for it" and he did an increasing amount of reviewing.

Having chaired a number of literary prizes, including the Booker twice, Mr Carey found himself on the other side of the fence when his biography of William Golding was nominated for a James Tait Black award. His elation on learning that he had won is described with endearing candour: "I was far more moved than was appropriate for someone who knew literary prizes to be meaningless." The short final chapter provides refreshing answers to the question, "Why Read?" It concludes, "Reading is freedom. Now read on." ■

### New British fiction

## London pride

**What Was Promised.** By Tobias Hill.  
Bloomsbury; 373 pages; £16.99

**T**OBIAS HILL'S fifth novel is almost outstanding. In "What Was Promised" he constructs a multi-generational saga rooted in London's East End. It opens in 1948 with the city pockmarked by bomb craters. The cast includes Solly and Dora Lazarus, Jewish refugees from eastern Europe, Clarence Malcolm, a Jamaican immigrant, and Michael Lockhart, a native Brit rising in business on both sides of the law. The novel's second section picks up the characters in 1968. The third jumps forward 20 more years.

Mr Hill's book has many strengths. First is the depiction of London itself, from the new estates built for social housing in the 1960s to its "shabby Fitzrovia glamour". Second is the dialogue, such as the louche fashion photographer telling a woman she's a "knockout" and the East End flower-seller crying, "Two bob! Perfume! Two bob! Sweet pea!" Third is a male writer's impressive de-

Ferran Adrià

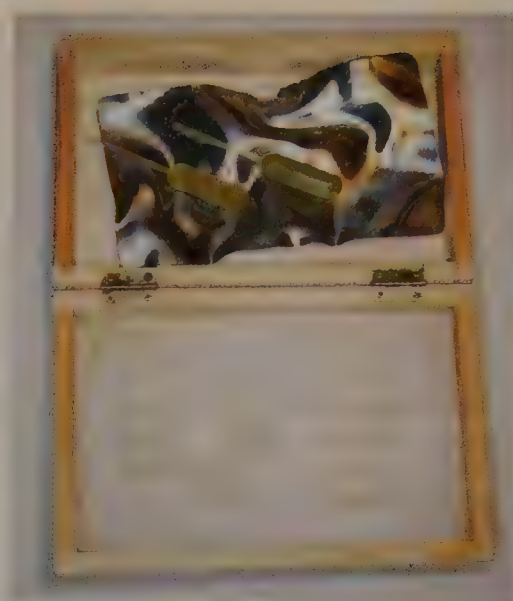
## Bulli for him

NEW YORK

**Americans get a taste of Spain's best-known chef**

**S**INCE the closure of El Bulli, his world-famous Spanish restaurant, in 2011 Ferran Adrià has been cooking up various ways to cement his legacy and share his ideas. They are certainly worth preservation. With his extravagant gastronomy, Mr Adrià changed haute cuisine more than any other chef of the past 20 years. Though criticised for his use of chemicals, he was repeatedly able to awe diners at El Bulli like children at a magic show. Foie gras became powder, ravioli became liquid, melon became caviar-like beads.

Now that he is a chef without a restaurant, Mr Adrià is focusing on his next big idea, the El Bulli Foundation, a culinary laboratory and exhibition space that is scheduled to open on the site of the restaurant in 2015. One of its projects is "Bullipedia", a comprehensive history of Western cooking and a vast database of recipes and ingredients. Alongside this he has just released "El Bulli: 2005-2011", a monumental, \$625 cookbook recording every recipe he



**Food, but not as you know it**

created during those years with Albert, his brother and pastry chef. It has step-by-step instructions for dishes such as clams in Earl Grey tea with pink grapefruit, and green-pea jelly with banana lime ice cream.

For many chefs, an 18-kilogram recipe compendium would document a life's work. In Mr Adrià's case, it is merely a slice, showing what his team created during El Bulli's final years (four other books cover his earlier career). The works portray an exhaustive note-taker, risk-taker and master of introspection, obsessed with assessing every recipe he created. Some chefs might prefer to keep their best ideas private. Mr Adrià shows everything that helped El Bulli claim the top spot five times in *Restaurant* magazine's annual ranking of the world's best eateries.

The reception Mr Adrià has been given as he jets around North America to promote this opus confirms his status at the peak of the culinary world. His public appearances have triggered stampedes of ticket-buyers. A Canadian party in his honour quickly sold out—at \$1,000 a head.

The cookbook will get quite a plug over the next two years as "Notes on Creativity", a travelling exhibition of Mr Adrià's paraphernalia, tours museums in America and Europe. He has provided papers outlining his cooking philosophy, personal sketches, paintings and photographs. The first stop, at New York's Drawing Centre in January, showed off recipe notes and drawings of plated dishes that could have come from the hand of Cy Twombly. Cooking enthusiasts gathered to take photos of the photos or watch a 90-minute slide show of El Bulli's masterpieces.

Observers can debate whether a chef's doodles and drawings qualify as art. Sadly, the only things missing at each stop are Mr Adrià's most obvious artistic creations: frozen air of Parmesan, perhaps, or sugar cubes with tea and lime (pictured), prepared by the man himself to show precisely how genius works. ■

piction of female experience. The section that follows Lockhart's daughter at the end of her modelling career is a delicious description of a woman helped, yet slightly bored, by the opportunities her beauty presents.

The book does have flaws. Mr Hill knits his families together in two ways, daily interaction and pivotal incident. The first method works well, with its convincing street conversations. But the dramatic moments sometimes stretch credibility. When Lockhart crashes his car into a pregnant woman her death neatly echoes through the text, tying up plot strands. When a man walks into a travel agent's and asks the unknown daughter of a woman he once knew to go on holiday with him, alone, she accepts.

For a novel that does London so well, wider geography is occasionally problematic. Jamaica is excessively paradisiacal, all lush foliage and charming vernacular. Mr Hill could have drilled further into the reasons why his émigrés departed. But in general he deserves high praise.



Karl Ove Knausgaard

# Northern light

OSTERLEN, SWEDEN

One of Europe's most remarkable literary talents explains the autobiography that made his name

THE man standing on the platform at Ystads station, in southern Sweden, looks more like a grunge rocker than a literary superstar: long hair, beard, scuffed boots, glowing cigarette, hat pulled down against the bitter cold. His white van is so grimy that it is almost black. The stereo blasts out at full volume. There is a fearsome-looking dog cage in the back.

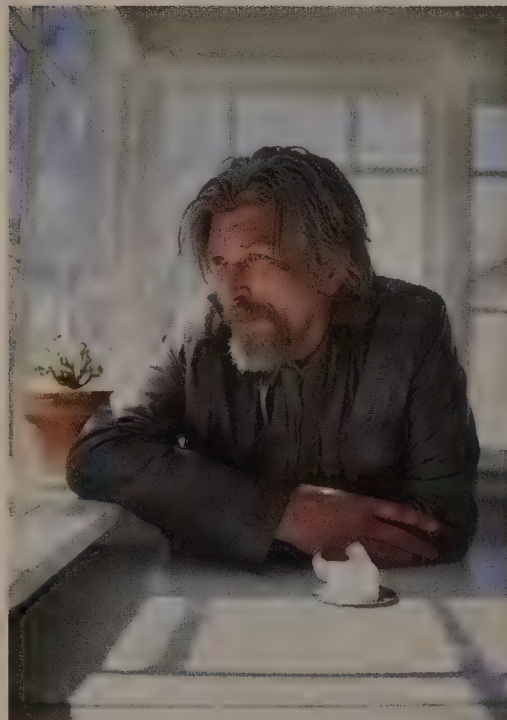
Karl Ove Knausgaard tries to reassure his guest. He turns the music off. He chats about the latest Bill Bryson. The dog turns out to be a soppy spaniel that he bought for his children. But the grunge keeps reasserting itself. Mr Knausgaard smokes like a fiend in his garden study (though not in his impeccably tidy house) and keeps an electric guitar and a drum kit next to his desk. What also reasserts itself repeatedly is the sense that this is a man in the grip of a huge literary talent.

Mr Knausgaard is the author of one of the most idiosyncratic literary works of recent years: a six-volume, 3,500-page autobiography called "My Struggle", after Hitler's "Mein Kampf". It starts with a portrait of his father's alcohol-soaked death, ends with a meditation on Hitler and takes the author through the cycle of his life. Mr Knausgaard is now 45.

"My Struggle" turned him into a superstar in his native Norway. One in ten Norwegians have read some of the book, and companies have introduced "Knausgaard-free days" in order to keep people's minds on work. It has also turned him into something of a pariah, not just because he called the book "My Struggle", but also because he lays bare the lives of everyone around him. His father's side of the family refuse to speak to him. Ordinary Norwegians regard him with horror as well as fascination. He is now an exile from both fame and scandal, living in tiny Osterlen, where nobody gives a damn about literary celebrities.

"My Struggle" is being translated into English with frequently ecstatic reviews (this week sees the publication of the third volume, "Boyhood Island"). It is the most exhaustive account of a modern life ever written. Mr Knausgaard devotes pages to buying beer as a teenager, or pushing a pram as a new father. But he is saved from being boring by four things. The first is the energy of his writing: what it lacks in polish it makes up for in immediacy. The second is his willingness to "put everything into a book", as he describes it. He not only dwells on things that other writers might

consider to be beneath consideration. He dares to be politically incorrect: to reveal, for example, how humiliating it is for a hulking man to take his children to play groups. The third element is the sense of transcendence: "My Struggle" is full of quasi-religious moments when the author sees something bigger lurking beneath the surface of events. The fourth and most important thread is Mr Knausgaard's father, a figure who provides the book with both its narrative drive and its all-enveloping sense of menace. Knausgaard senior was a brooder and a stickler for rules who left his



Easy writer

children in a permanent state of anxiety. He eventually moved in with his senile, incontinent mother and drank himself to death. In a moving passage in "Boyhood Island", Mr Knausgaard writes that he has dedicated his mature life to making sure that his children (he has four) will never be burdened with the sort of memories that have burdened him.

He wrote the first version of his autobiography in a state of frustration. His second marriage was going through a difficult patch. His writing career had hit the buffers, despite two well-received novels. He had failed to produce anything that he thought worthy of publication for five years. Convinced that he had nothing to lose, he produced 1,200 pages of raw autobiography in a white heat of creativity. But

then two things happened. He came up with the idea of calling it "My Struggle"—a title which embodied both his "fuck-you mood", as he puts it, and guaranteed him instant notoriety. And his publishers astonished him by telling him to make the book longer. They suggested turning it into 12 volumes, to be published in monthly instalments, but eventually settled for six.

This plunged him into a bizarre literary exercise. He was writing up to 20 pages a day in order to hit his deadlines. But unlike Charles Dickens, who produced plot-driven novels to order, he was baring bits of his soul to a timetable, coping, on the one hand, with the growing fury of his family and, on the other, with the ever-present fear of failure. Mr Knausgaard used the sixth volume, which has not yet been translated into English, to tell the story of the book's reception, including his wife's mental breakdown, and to analyse his own response to reading Hitler's "Mein Kampf", which he had not touched until then. The final volume was given an extra jolt by the worst act of terrorism in Norwegian history: Mr Knausgaard agonises over whether Anders Behring Breivik was an isolated madman or "one of us".

"My Struggle" is frequently compared to Proust's "À la recherche du temps perdu". Mr Knausgaard certainly regards Proust as the biggest influence on his work. And he is as obsessed as Proust with the mechanics of memory: he claims that he does not have a good memory until he starts writing. But Mr Knausgaard belongs to a very different world from Proust's overripe French aristocracy: the world of the overgrown Nordic welfare state with its vast army of employees (his father was a teacher, his mother a nurse) and its smug sense of self-righteousness. And he also belongs to a world in which the parameters of good and evil have been redefined by the Holocaust.

Mr Knausgaard describes himself as a romantic conservative: he is equally critical of capitalism, which breaks down established communities, and the welfare state, which promotes politically correct complacency. How can his fellow Scandinavians devote such energy to eating the right food, when their predecessors agonised about God and the devil? (Though not a Christian, he was involved with a recent new translation of the Bible into Norwegian.) Yet his biggest political obsession is with the horrors of Nazi Germany. Mr Knausgaard used the title "Mein Kampf" to attract attention to an idiosyncratic book about himself. But that choice proved fateful: the author of the second-most-famous book to bear that terrible name now spends much of his time thinking about the author of the most famous one. ■

Listen to our interview with Mr Knausgaard at [Economist.com/knausgaard](http://Economist.com/knausgaard)



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## Economic data

% change on year ago

	Gross domestic product			Industrial production latest	Consumer prices		Unemployment rate, %	Current-account balance		Budget balance % of GDP 2014 <sup>†</sup>	Interest rates, % 10-year gov't bonds, latest	Currency units, per \$	
	latest	qtr* 2014 <sup>†</sup>	2014 <sup>†</sup>		latest	2014 <sup>†</sup>		latest 12 months, \$bn	% of GDP 2014 <sup>†</sup>			Mar 12th	year ago
United States	+2.5 Q4	+2.4	+2.8	+2.9 Jan	+1.6 Jan	+1.6	6.7 Feb	-398.7 Q3	-2.2	-2.9	2.72	-	-
China	+7.7 Q4	+7.4	+7.2	+8.6 Feb	+2.0 Feb	+2.8	4.1 Q4 <sup>§</sup>	+188.6 Q4	+1.7	-1.9	4.26 <sup>§§</sup>	6.15	6.22
Japan	+2.6 Q4	+0.7	+1.4	+10.6 Jan	+1.4 Jan	+2.5	3.7 Jan	+23.0 Jan	+0.9	-8.1	0.63	103	96.0
Britain	+2.7 Q4	+2.9	+2.8	+2.9 Jan	+1.9 Jan	+2.0	7.2 Nov <sup>††</sup>	-94.9 Q3	-3.2	-5.6	2.84	0.60	0.67
Canada	+2.7 Q4	+2.9	+2.3	+2.7 Dec	+1.5 Jan	+1.5	7.0 Feb	-58.9 Q4	-2.9	-2.2	2.46	1.11	1.03
Euro area	+0.5 Q4	+1.1	+1.1	+2.1 Jan	+0.8 Feb	+0.9	12.0 Jan	+288.7 Dec	+2.1	-2.6	1.60	0.72	0.77
Austria	+0.9 Q4	+2.1	+1.3	-0.6 Dec	+1.5 Jan	+1.7	4.9 Jan	+9.6 Q3	+2.9	-2.8	1.89	0.72	0.77
Belgium	+1.0 Q4	+2.0	+1.2	-0.4 Dec	+1.0 Feb	+1.2	8.5 Jan	-12.6 Sep	-0.5	-2.9	2.24	0.72	0.77
France	+0.8 Q4	+1.2	+0.8	-0.1 Jan	+0.7 Jan	+1.1	10.9 Jan	-42.0 Dec	-1.7	-3.6	2.18	0.72	0.77
Germany	+1.4 Q4	+1.5	+1.8	+5.0 Jan	+1.2 Feb	+1.4	6.8 Feb	+281.9 Jan	+6.6	+0.3	1.60	0.72	0.77
Greece	-2.3 Q4	na	nil	+1.1 Jan	-1.1 Feb	-1.0	27.5 Dec	+1.6 Dec	+1.6	-2.5	7.09	0.72	0.77
Italy	-0.9 Q4	+0.3	+0.4	+1.4 Jan	+0.5 Feb	+0.8	12.9 Jan	+16.2 Dec	+0.8	-3.3	3.43	0.72	0.77
Netherlands	+0.7 Q4	+2.8	+0.8	+2.0 Jan	+1.1 Feb	+1.2	8.6 Jan	+83.6 Q3	+9.5	-3.4	1.88	0.72	0.77
Spain	-0.1 Q4	+0.7	+0.7	-0.1 Jan	nil Feb	+0.4	25.8 Jan	+9.5 Dec	+1.1	-5.9	3.31	0.72	0.77
Czech Republic	+0.9 Q4	+7.9	+1.6	+9.3 Dec	+0.2 Feb	+1.5	8.6 Feb <sup>§</sup>	-3.4 Q3	-0.6	-3.6	2.22	19.7	19.7
Denmark	+0.6 Q4	-2.0	+1.3	-5.0 Jan	+0.5 Feb	+1.4	5.4 Jan	+24.4 Jan	+6.1	-1.8	1.62	5.37	5.73
Hungary	+2.7 Q4	+2.2	+2.1	+6.0 Jan	+0.1 Feb	+1.4	8.9 Jan <sup>§††</sup>	+3.1 Q3	+1.9	-3.0	5.98	226	235
Norway	+1.1 Q4	-0.7	+2.2	+1.3 Jan	+2.1 Feb	+2.1	3.6 Dec <sup>††</sup>	+54.5 Q4	+12.5	+12.0	3.03	5.95	5.71
Poland	+2.7 Q4	na	+2.9	+4.1 Jan	+0.7 Jan	+1.5	14.0 Jan <sup>§</sup>	-7.9 Dec	-1.8	-3.5	4.26	3.04	3.18
Russia	+1.2 Q3	na	+2.9	-0.2 Jan	+6.2 Feb	+5.8	5.6 Jan <sup>§</sup>	+33.0 Q4	+1.9	-0.5	9.40	36.5	30.7
Sweden	+3.1 Q4	+7.1	+2.3	+0.8 Jan	-0.2 Feb	+0.7	8.6 Jan <sup>§</sup>	+34.6 Q4	+6.0	-1.4	2.19	6.36	6.37
Switzerland	+1.7 Q4	+0.6	+2.1	+0.4 Q4	-0.1 Feb	+0.4	3.2 Feb	+79.9 Q3	+11.4	+0.5	0.99	0.87	0.95
Turkey	+4.4 Q3	na	+2.0	+7.2 Jan	+7.9 Feb	+10.1	9.9 Nov <sup>§</sup>	-64.0 Jan	-6.6	-2.7	11.24	2.24	1.80
Australia	+2.8 Q4	+3.2	+2.6	+2.8 Q4	+2.7 Q4	+2.7	6.0 Feb	-44.2 Q4	-3.2	-2.8	4.17	1.11	0.97
Hong Kong	+3.0 Q4	+4.4	+3.7	-0.9 Q3	+4.6 Jan	+3.6	3.1 Jan <sup>††</sup>	+5.4 Q3	+2.8	+1.3	2.32	7.77	7.76
India	+4.7 Q4	+0.4	+6.0	+0.1 Jan	+8.1 Feb	+8.8	9.9 2012	-49.2 Q4	-2.9	-4.9	8.72	61.2	54.3
Indonesia	+5.7 Q4	na	+5.4	+0.9 Jan	+7.7 Feb	+7.0	5.8 Q4 <sup>§</sup>	-28.5 Q4	-3.8	-2.3	na	11,425	9,697
Malaysia	+5.1 Q4	na	+5.1	+3.7 Jan	+3.4 Jan	+3.2	3.0 Dec <sup>§</sup>	+11.7 Q4	+5.3	-4.2	4.12	3.29	3.11
Pakistan	+6.1 2013**	na	+3.9	+13.2 Dec	+7.9 Feb	+7.2	6.2 2013	-4.0 Q4	-1.6	-6.3	12.25 <sup>†††</sup>	97.8	97.9
Singapore	+5.5 Q4	+6.1	+4.2	+3.9 Jan	+1.4 Jan	+2.7	1.8 Q4	+54.4 Q4	+19.5	+0.7	2.49	1.27	1.25
South Korea	+4.0 Q4	+3.7	+3.3	-3.8 Jan	+1.0 Feb	+2.0	4.5 Feb <sup>§</sup>	+72.0 Jan	+4.4	+0.5	3.54	1,070	1,095
Taiwan	+2.9 Q4	+7.3	+3.2	-1.8 Jan	nil Feb	+1.1	4.1 Jan	+57.4 Q4	+10.2	-2.1	1.59	30.3	29.7
Thailand	+0.4 Q4	+2.4	+3.0	-7.4 Jan	+2.0 Feb	+2.4	0.6 Dec <sup>§</sup>	-2.8 Q4	+0.6	-2.6	3.70	32.4	29.6
Argentina	+5.5 Q3	-0.7	-0.6	-2.6 Jan	— ***	—	6.4 Q4 <sup>§</sup>	-3.5 Q3	-0.2	-2.4	na	7.87	5.08
Brazil	+1.9 Q4	+2.8	+1.8	-2.4 Jan	+5.7 Feb	+6.0	4.8 Jan <sup>§</sup>	-81.6 Jan	-3.6	-4.0	12.87	2.36	1.96
Chile	+4.7 Q3	+5.4	+4.1	-1.7 Jan	+3.2 Feb	+3.2	6.1 Jan <sup>§††</sup>	-9.5 Q3	-4.2	-1.0	5.01	572	471
Colombia	+5.1 Q3	+4.5	+4.7	+2.0 Dec	+2.3 Feb	+2.7	11.1 Jan <sup>§</sup>	-12.6 Q3	-3.5	-0.7	7.19	2,047	1,802
Mexico	+0.7 Q4	+0.7	+3.0	-0.3 Dec	+4.2 Feb	+4.5	4.8 Jan	-22.3 Q4	-1.6	-3.2	7.75	13.3	12.4
Venezuela	+1.1 Q3	-0.8	-1.8	+0.8 Sep	+56.2 Jan	+65.2	5.6 Dec <sup>§</sup>	+6.9 Q3	+1.7	-12.2	12.77	6.29	6.29
Egypt	+1.0 Q3	na	+2.0	-18.1 Dec	+9.8 Feb	+9.9	13.4 Q4 <sup>§</sup>	-4.5 Q3	-2.4	-12.7	na	6.96	6.76
Israel	+3.6 Q4	+2.7	+3.4	+7.4 Dec	+1.4 Jan	+1.5	5.9 Jan	+7.2 Q4	+2.5	-2.8	3.37	3.47	3.68
Saudi Arabia	+3.8 2013	na	+4.0	na	+2.8 Feb	+3.3	5.6 2013	+139.3 Q3	+13.0	+1.7	na	3.75	3.75
South Africa	+2.0 Q4	+3.8	+2.5	+2.6 Dec	+5.8 Jan	+5.6	24.1 Q4 <sup>§</sup>	-20.5 Q4	-6.3	-4.4	8.45	10.9	9.17

Source: Haver Analytics. \*% change on previous quarter, annual rate. <sup>†</sup>The Economist poll or Economist Intelligence Unit estimate/forecast. <sup>§</sup>Not seasonally adjusted. <sup>§§</sup>New series. <sup>\*\*</sup>Year ending June. <sup>††</sup>Latest 3 months. <sup>†††</sup>3-month moving average. <sup>§§§</sup>5-year yield \*\*\*Official number not yet proven to be reliable; The State Street PriceStats Inflation Index, December 23.38%; year ago 25.98% <sup>†††</sup>Dollar-denominated bonds.



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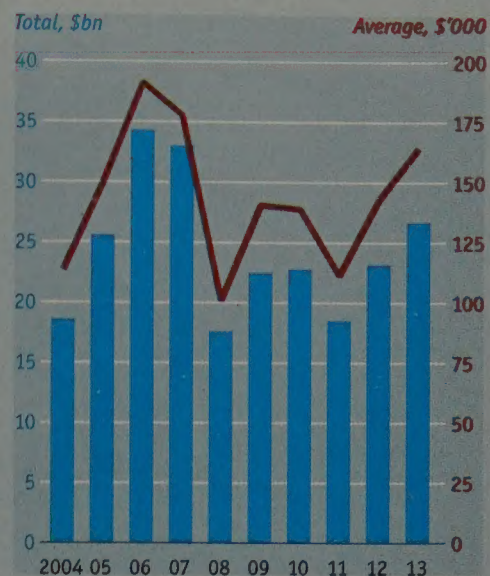


## Markets

	Index Mar 12th	% change on		
		one week	in local currency	in \$ terms
United States (DJIA)	16,340.1	-0.1	-1.4	-1.4
China (SSEA)	2,091.3	-2.7	-5.6	-7.0
Japan (Nikkei 225)	14,830.4	-0.5	-9.0	-6.9
Britain (FTSE 100)	6,620.9	-2.3	-1.9	-1.6
Canada (S&P TSX)	14,319.0	+0.1	+5.1	+0.3
Euro area (FTSE Euro 100)	1,004.1	-2.3	-1.6	-0.7
Euro area (EURO STOXX 50)	3,065.5	-2.2	-1.4	-0.5
Austria (ATX)	2,452.0	-3.7	-3.7	-2.8
Belgium (Bel 20)	3,081.8	-0.8	+5.4	+6.4
France (CAC 40)	4,306.3	-1.9	+0.2	+1.2
Germany (DAX)*	9,188.7	-3.7	-3.8	-2.9
Greece (Athex Comp)	1,359.8	+3.0	+17.0	+18.0
Italy (FTSE/MIB)	20,781.5	+0.1	+9.6	+10.6
Netherlands (AEX)	391.4	-1.8	-2.6	-1.7
Spain (Madrid SE)	1,030.3	-1.3	+1.8	+2.7
Czech Republic (PX)	967.8	-3.7	-2.2	-1.2
Denmark (OMXC20)	636.1	-3.4	+12.4	+13.4
Hungary (BUX)	16,343.1	-6.5	-12.0	-15.9
Norway (OSEAX)	605.1	-1.6	+0.4	+2.3
Poland (WIG)	50,517.3	-3.3	-1.5	-2.2
Russia (RTS, \$ terms)	1,098.7	-7.1	-15.4	-23.8
Sweden (OMXS30)	1,346.4	-1.4	+1.0	+2.0
Switzerland (SMI)	8,310.4	-1.8	+1.3	+3.0
Turkey (BIST)	63,258.6	-0.3	-6.7	-10.4
Australia (All Ord.)	5,400.5	-1.0	+0.9	+1.7
Hong Kong (Hang Seng)	21,902.0	-3.0	-6.0	-6.2
India (BSE)	21,856.2	+2.7	+3.2	+4.4
Indonesia (JSX)	4,684.4	+0.5	+9.6	+16.7
Malaysia (KLSE)	1,818.6	-0.6	-2.6	-3.0
Pakistan (KSE)	27,115.2	+2.2	+7.3	+15.4
Singapore (STI)	3,097.4	-0.6	-2.2	-2.6
South Korea (KOSPI)	1,932.5	-2.0	-3.9	-5.3
Taiwan (TWI)	8,684.7	+0.6	+0.9	-0.9
Thailand (SET)	1,356.4	+0.4	+4.4	+5.8
Argentina (MERV)	5,713.3	-0.6	+6.0	-12.3
Brazil (BVSP)	45,861.8	-1.6	-11.0	-11.1
Chile (IGPA)	17,951.7	-2.1	-1.5	-9.6
Colombia (IGBC)	12,883.6	+1.2	-1.4	-7.0
Mexico (IPC)	38,634.8	-1.0	-9.6	-10.8
Venezuela (IBC)	2,650.4	-3.4	-3.2	na
Egypt (Case 30)	8,096.9	+0.9	+19.4	+19.2
Israel (TA-100)	1,265.4	-0.4	+4.8	+4.9
Saudi Arabia (Tadawul)	9,351.1	+2.1	+9.6	+9.6
South Africa (JSE AS)	47,188.8	-0.7	+2.0	-1.6

## Wall Street bonuses

The bonus pool for people employed in the securities industry in New York City increased by 15% in 2013, to \$26.7 billion, according to the latest estimate from the New York state comptroller. The average bonus paid also rose by 15%, to \$164,530. This was the third-highest average bonus on record and the biggest since the 2008 financial crisis. The bonus pool includes cash bonuses for the current year as well as amounts deferred from previous years; deferred payments have grown in response to reforms put in place since the crisis. The industry has been profitable for five consecutive years, but the number of jobs, estimated to be 165,000, is still 12.6% below the pre-crisis level.



Source: Office of the New York State Comptroller

## Other markets

	Index Mar 12th	% change on		
		one week	in local currency	in \$ terms
United States (S&P 500)	1,868.2	-0.3	+1.1	+1.1
United States (NASComp)	4,323.3	-0.8	+3.5	+3.5
China (SSEB, \$ terms)	225.4	-3.8	-9.8	-11.1
Japan (Topix)	1,206.9	-0.5	-7.3	-5.2
Europe (FTSEurofirst 300)	1,307.3	-2.7	-0.7	+0.2
World, dev'd (MSCI)	1,665.6	-0.8	+0.3	+0.3
Emerging markets (MSCI)	944.6	-1.5	-5.8	-5.8
World, all (MSCI)	407.0	-0.9	-0.4	-0.4
World bonds (Citigroup)	931.2	+0.1	+2.7	+2.7
EMBI+ (JPMorgan)	660.3	-0.7	+1.3	+1.3
Hedge funds (HFRX)	1,241.0 <sup>§</sup>	-0.2	+1.3	+1.3
Volatility, US (VIX)	14.5	+13.9	+13.7 (levels)	
CDSs, Eur (iTRAXX) <sup>†</sup>	74.0	+3.2	+2.2	+3.1
CDSs, N Am (CDX) <sup>†</sup>	65.1	+4.4	nil	nil
Carbon trading (EU ETS) €	6.6	-4.2	+30.8	+32.0

Sources: Markit; Thomson Reuters. \*Total return index. †Credit-default-swap spreads, basis points. §Mar 11th.

Indicators for more countries and additional series, go to: [Economist.com/indicators](http://Economist.com/indicators)

## The Economist commodity-price index

2005=100

	Mar 4th		% change on	
	Mar 4th	Mar 11th*	one month	one year
<b>Dollar Index</b>				
All items	172.9	174.3	+5.7	-5.3
Food	200.1	203.0	+9.5	-2.7
Industrials				
All	144.6	144.5	+0.7	-8.9
Nfa <sup>†</sup>	154.9	157.8	+2.6	-6.1
Metals	140.1	138.9	-0.2	-10.2
<b>Sterling Index</b>				
All items	188.6	190.7	+4.8	-15.2
<b>Euro Index</b>				
All items	156.4	156.3	+4.3	-11.1
<b>Gold</b>				
\$ per oz	1,337.0	1,341.5	+4.0	-15.8
<b>West Texas Intermediate</b>				
\$ per barrel	103.2	99.8	-0.1	+7.9

Sources: Bloomberg; CME Group; Cotlook; Darmann &amp; Curl; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd &amp; Ewart; Thomson Reuters; Urner Barry; WSJ. \*Provisional

<sup>†</sup>Non-food agricultural.[www.worldforestsummit.com](http://www.worldforestsummit.com)

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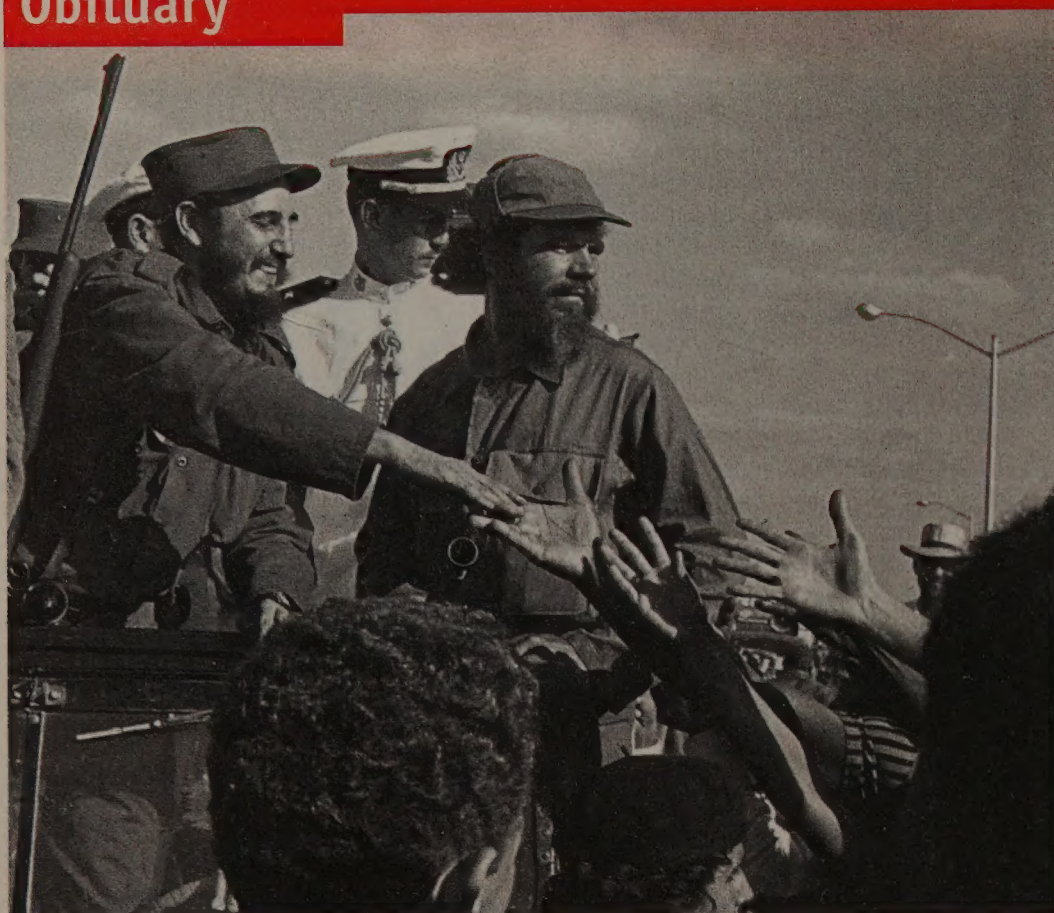
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## Huber Matos

**Huber Matos Benítez, Cuban revolutionary-turned-political prisoner, died on February 27th, aged 95**

EVERY picture tells a story. The one above tells more than most. It shows Fidel Castro and Huber Matos entering Havana in an open truck, having toppled Fulgencio Batista, on January 8th 1959. Revolution had swept the dictator away; the people were on the streets in one huge, wild, tumultuous demonstration of joy. But Fidel was terrified. Sweat soaked his uniform. He thought he might be shot at any moment. So while he gladhanded the crowd, Mr Matos watched it for assassins, his pale blue eyes alert to anything that moved.

Looking out for Fidel had become a full-time job. Not so often for his life, as for his ideas, and which way they were tending. Mr Matos, a farmer's son and teacher from poor Oriente, had joined the revolutionary movement to make Cuba free. He remembered vividly how the church bells had rung out across the fields when the dictator Machado fell in 1933. He had longed for democracy that never took root. Twenty-five years later, for liberty or death, he had organised shipments of weapons from Costa Rica to Fidel's rebels in the Sierra Maestra and then fought there himself. At the age of 40 he had happily endured the night marches, the rain, the hunger, the sand-filled boots and flesh-burrowing parasites, to defend the rights of the Cuban people. But what did Fidel want?

It was hard to tell. At times he was all back-slapping hugs and euphoria, seizing the rifles Mr Matos brought him like a child at Christmas. "Now we'll win the war!" he shouted, and fired the precious bullets into the air. In his delight, he made Mr Matos *comandante* of the ninth column and, in January 1959, appointed him military governor of rich Camagüey province. At other times, though, *el jefe* was foul-mouthed, cold and insulting. He would talk about social democracy, but act like a tyrant. His brother Raúl, more secretive, was worse.

### The enemy within

Mr Matos had a habit of speaking his mind. His life had been tough. At the age of eight, he was digging irrigation ditches and hauling up water from the well every morning. Muscles bulged on his arms. There were constant fights with village boys, with fists and stones; his father taught him not to flinch. His strange name, Huber, was borrowed from a Swiss apiarist who had written a definitive study of bees in defiance of encroaching blindness. True to that name, he did not blink or retreat.

So when Fidel upbraided him in letters—for sloppiness in his brigade, or the loss of a machinegun, or some petty thing—he would instantly write back defending himself. Comrade to comrade, he

demanded respect. And if he detected Marxism in words or deeds, he would go to the top to protest. Though he thought of himself as a man of the left, nurtured politically, like Fidel, in the progressive-nationalist Orthodox Party, he considered communism poison. He had even insisted, over Fidel's perplexed objections, on naming his ninth column after a famous anti-communist, Antonio Guiteras.

It was wasted effort. Everyone else in the inner circle—smiling, bohemian Camilo Cienfuegos, charming, asthmatic Che, Fidel himself—waved his worries aside. Communists were not in key positions, said Fidel. You couldn't call me a real Marxist, said Che. But Mr Matos saw the revolution fast swerving to the left. Marxism was not Fidel's heartfelt ideology, he agreed. It was a way to hold on to power. That made it no less dangerous. "Don't bury the revolution," he warned his leader.

His protests proved costly. In the autumn of 1959 he resigned his posts, telling Fidel that he did not want to obstruct the revolution. He hoped to be allowed to go back to teaching. Instead he was arrested and put on trial before a tribunal picked by Fidel, with a ranting Fidel as chief prosecution witness, and sentenced to 20 years in prison for treason and sedition.

Had he been a traitor? Fidel connected him to the Americans and the CIA, but on no solid evidence. He was accused of selling out to the capitalist, landed interests of the cattle-ranchers of Camagüey, where he had made anti-communist speeches. But he said he knew nothing of subversion. In his letters of dissent and resignation he had still pledged his loyalty to Fidel. He accepted, despite his doubts, that the people of Cuba had placed their trust in this man—who, in 1961, declared that the revolution was communist after all.

Imprisonment, most of it on the Isle of Pines, was often in solitary confinement. He fell ill. Clouds of mosquitoes tormented him. He was tortured and beaten. At the end of the 20 years he was flown out to Costa Rica, to meet the four children whose childhoods he had missed. Some time afterwards he settled in Florida, where he set up foundations to promote democracy in Cuba and independent teaching in the schools. It was a way of carrying on the struggle to which he had committed himself, alone in the forest, on his first night in olive-green uniform in the Sierra Maestra. Half a century later, the real revolution had yet to arrive.

Many hard-right exiles in Miami still distrusted and disliked him. For them, he kept his bad-revolutionary spots as a man who had fought for Fidel. On that triumphant entry into Havana, he had toted an m-3 submachinegun to protect him. In Miami, he routinely packed a pistol into his waistband to look out for himself. ■



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## No more teddy bear picnics

Paddington loved marmalade. Winnie went for honey from a pot. But ecologists and rangers worry most about bears like Yogi, who steal picnics. A new study reveals that attempts to get the black bears of Yosemite Park to eat less human grub are working



## What is a foreign language worth?

An economist has calculated that the earnings bonus for an American who learns a foreign language is 2%. Over a lifetime, that adds up to a tidy return. But some languages are worth more than others; it is better to study German than Spanish, for example



## Miserable and useless

When Isaias Afewerki, Eritrea's president, introduced compulsory military service in 1995, he said it would be good for the emerging nation. But thousands of Eritreans now flee the country each year to avoid the draft, which they liken to slavery

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"Like all would-be monopolies, cults and sects hate competition. Coca-Cola would love to ban Pepsi advertising and...the Catholic church is in the same situation. For centuries it was able to extract cash and obedience on a monopoly basis; now, it must compete with other brands."—From "Competing to be the real thing", March 8th 2014



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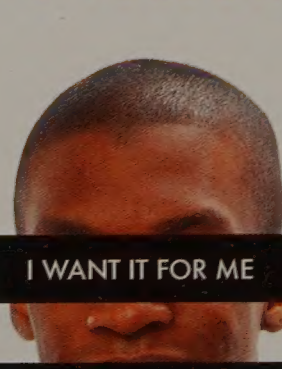
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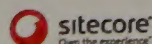
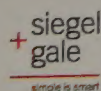
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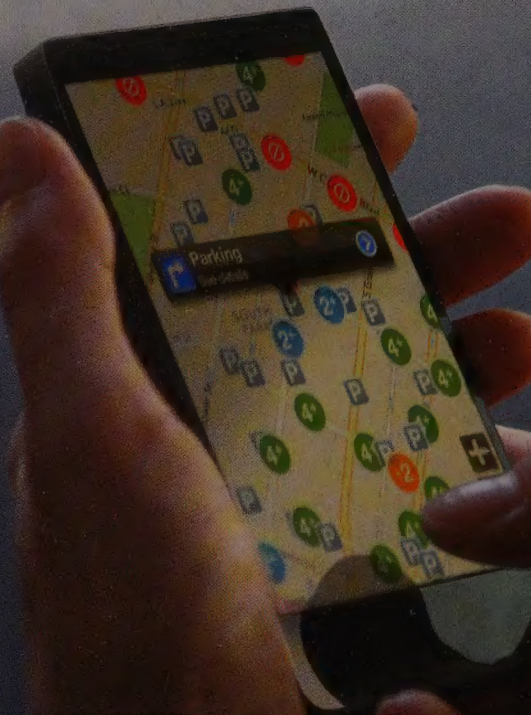


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